

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

Condensed Financial Statements as at 30 June 2014 (unaudited)

Bank Leumi le-Israel B.M.

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A. General Developments in the Group's Business

The Directors' Report has been prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with those used in preparing the Annual Report as at 31 December 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 1,198 billion at the end of June 2014, compared with NIS 1,165 billion at the end of 2013, an increase of some 2.8%, which derived primarily from an increase in securities portfolios, and an increase in the value of provident funds and supplementary training funds.

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

Below are principal data as at:

	30 June 2014	30 June 2013	31 December 2013
Balance sheet data (in NIS millions):			
Total assets (total balance sheet)	368,577	363,714	374,360
Credit to the public, net	244,385	238,483	240,874
Securities	49,713	57,580	63,735
Cash and deposits in banks	49,902	42,754	44,351
Investment in companies included on equity basis	1,641	1,978	1,689
Deposits of the public	279,861	275,448	286,003
Debentures, notes, and subordinated notes	24,509	27,587	25,441
Equity attributable to shareholders of the banking corporation	27,303	25,577	26,425

Below are principal data:

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2014	2013	2014	2013	2013
Income, expenses and profits (in NIS millions):					
Interest income, net (1)	1,905	1,839	3,662	3,601	7,357
Expenses (income) in respect of credit losses	(16)	84	(67)	157	268
Total non-interest income	1,250	1,246	2,624	2,715	5,517
Of which: commissions (1)	1,040	1,029	2,080	2,054	4,188
Total operating and other expenses	2,515	2,179	4,639	4,236	8,933
Of which: salary expenses	1,188	1,215	2,500	2,497	5,174
Profit before taxes (2)	656	822	1,714	1,923	3,673
Provision for taxes	369	284	754	747	1,391
Net profit for the period attributed to shareholders of the banking corporation	290	474	915	1,044	1,947
Net profit per share attributed to shareholders of the banking corporation (in NIS)	0.20	0.32	0.62	0.71	1.32
Total profit for the period attributed to shareholders of the banking corporation	306	273	884	635	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:

	30 June 2014	30 June 2013	31 December 2013
Credit to the public, net, to total balance sheet	66.3	65.6	64.3
Securities to total balance sheet	13.5	15.8	17.0
Deposits of the public to total balance sheet	75.9	75.7	76.4
Deposits of the public to total credit, net	114.5	115.5	118.7
Total capital to risk assets (a) (f)	14.25	15.02	14.82
Tier I capital to risk assets (f)	9.34	9.03	9.43
Capital (excluding non-controlling interests) to balance sheet	7.4	7.0	7.1
Net profit to average capital (excluding non-controlling interests) (c)	6.9	8.4	7.6
Rate of provision for tax on the profit before taxes	44.0	38.8	37.9
Expenses in respect of credit losses to credit to the public, net (c)	(0.05)	0.13	0.11
Of which: expenses in respect of collective allowance to net credit to the public (c)	0.10	0.10	0.11
Expenses in respect of credit losses to total risk of credit to the public (c)	(0.04)	0.08	0.07
Net interest income to total balance sheet (c)	2.00	1.99	1.97
Total income to total balance sheet (b) (c)	3.44	3.50	3.44
Total income to total assets managed by the Group (b) (c) (d)	1.05	1.17	1.11
Total operating and other expenses to total balance sheet (c)	2.53	2.34	2.39
Total operating and other expenses to total assets managed by the Group (c) (d)	0.78	0.79	0.77
Net profit to average total assets (c) (e)	0.50	0.57	0.53
Interest margin	2.15	2.03	2.08
Operating and other expenses (excluding early retirement) to total income (b)	73.8	67.1	68.8
Non-interest income to operating and other expenses (excluding early retirement)	56.6	64.1	62.3
Non-interest income to total income (b)	41.7	43.0	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 30 June 2014 have been calculated in accordance with the Basel III provisions. The ratios for 31 December 2013 and 30 June 2013 have been calculated in accordance with the Basel II provisions. For further details, see Note 4.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first half of 2014 amounted to NIS 915 million, compared with NIS 1,044 million in the corresponding period last year, a decrease of 12.4%.

During the current quarter, the Bank included expenses in respect of the investigation of the United States authorities amounting to NIS 460 million. During the first six months of 2014, these expenses amounted the expenses amounted to NIS 502 million. In the corresponding period last year, the expenses amounted to NIS 38 million.

Net profit attributable to shareholders in the banking corporation (hereinafter: the net profit) after cancelling the effect of the expenses in respect of the abovementioned investigation amounted to NIS 1,424 million in the first six months of 2014, compared with NIS 1,073 million in the corresponding period last year, an increase of some 32.7%.

Factors which affected the improvement the net profit between the periods and which partly offset the effect of the expenses of the abovementioned investigation are a reduction in expenses in respect of credit losses amounting to amounting to NIS 224 million (The data are before the effect of tax.) and by an improvement in the contribution of companies included on equity basis for the first six months of 2014 compared to NIS 60 million in the corresponding period last year.

During the first half of 2014, the effect of the results of the Israeli Corporation for the first quarter of 2014 was included in the Bank's financial statements. The effect of the results of the Israel Corporation for the second quarter will be included in the Bank's financial statements for the third quarter of 2014. This reporting gap is constant. For further details, see Note 1b, Significant Accounting Policies, below.

The net profit in the second quarter of 2014 amounted to NIS 290 million, compared with NIS 474 million in the corresponding period last year, a decrease of 38.8%.

Net profit after cancelling the effect of the expenses in respect of the investigation of the United States authorities amounted to NIS 765 million in the second quarter of 2014, compared with NIS 503 million in the corresponding period last year, an increase of some 52%.

The increase in the net profit in the second quarter, after cancelling the effect of the investigation expenses, is primarily attributable to a reduction in respect of credit losses amounting to NIS 100 million and an increase in net interest income amounting to NIS 66 million which partly offset the effect of the investigation expenses.

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 0.62 during the first half of 2014, compared with NIS 0.71 in the corresponding period last year.

The return on capital for the first half of 2014 was 6.9% and, after cancelling the effect of the expenses in respect of the investigation of the United States authorities, 10.8%, compared with 8.4% for the first half of 2013, and after cancelling the effect of the said expenses, 8.7%. The return on capital for the second quarter of 2014 was 4.3%, and after cancelling the effect of the said expenses, 11.7%, compared with 7.6% in the second quarter of 2013, and, after cancelling the effect of the said expenses, 8.1%.

Aggregate total income after the effect of tax (in addition to the net profit, inter alia, adjustments in respect of the presentation of available-for-sale securities at fair value and adjustments from translation of the financial statements) in the first half of 2014 amounted to NIS 884 million, compared to NIS 635 million in the corresponding period last year. In the second quarter of 2014, total profit amounted to NIS 306 million compared with NIS 273 million in the corresponding period last year. The increase in total profit arose mainly from positive adjustments in respect of available-for-sale securities amounting to NIS 55 million before tax in the first half of 2014, compared with negative adjustments in respect of available-for-sale shares amounting to NIS 452 million before tax in the first half of 2013.

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 10 August 2014 (ref.: 2014-01-131046) and the Immediate Report of 11 August 2014 (ref.:2014-01-131883).

Annual General Meeting and the Election of Directors

On 6 August 2014, the Annual General Meeting of the Bank ("AGM") was held, with the following subjects, inter alia, on the agenda: (1) the election of two directors for a term of office on the Board of Directors of the Bank, (2) the election of one external director pursuant to Regulation 301 of the Supervisor of Banks; and (3) the election of one external director pursuant to the Companies Law.

At the Annual General Meeting, the following serving directors were re-elected, Ms. Zipporah Samet, as external director pursuant to the Companies Law for a period of three years, and Mr. David Avner. In addition, Professor Haim Levy, as external director pursuant to Regulation 301 of the Supervisor of Banks, and Dr. Samer Haj Yahya were elected as directors.

The election of the directors who were elected at the Annual General Meeting is conditional on the approval of, or of the absence of any objection of, the Supervisor of Banks pursuant to Section 11a of the Banking Ordinance, which has, so far, been passed with regard to Ms. Zipporah Samet and Mr. David Avner. For further details, see the Chapter "Board of Directors" below.

At the said General Meeting, a number of additional resolutions were passed, inter alia:

- It was resolved to approve the amendment of the Bank's regulations according to the wording set forth in Schedule A to the notice convening the General Meeting.
- It was resolved to approve the extension of the framework decision which was previously approved by the General Meeting of the Bank on 4 November 2010, which authorizes in advance the Bank to purchase an insurance policy in respect of directors and other office-holders' liability in the Bank and the Group. From time to time, and without a further approval of the General Meeting being required for this, all subject to the conditions set forth in paragraph 3.7 of the agenda of the General Meeting (see Immediate Report on the convening of the General Meeting dated 30 June 2014 (ref. no. 2014-01-103521)).

For information regarding all of the resolutions passed at the General Meeting, see Immediate Report regarding the results of the Annual General Meeting of 6 August 2014 (ref. no. 2014-01-128649).

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

Capital Attributable to the Shareholders of the Banking Corporation (hereinafter: capital) of the Group as at 30 June 2014 amounted to NIS 27,303 million, compared with NIS 26,425 million as at the end of 2013, an increase of 3.3%. The increase is attributable to the profit for the first half of the year amounting to NIS 915 million.

The **capital to total assets ratio** reached 7.4% on 30 June 2014, compared with 7.1% on 31 December 2013.

With regard to changes in the Bank's capital, see Note 4 below.

The **capital to risk assets ratio** according to Basel III reached 14.25% as of 30 June 2014, compared with 14.20% on 1 January 2014. The Tier 1 shareholders' equity ratio reached 9.34% at 30 June 2014, compared with 9.20% on 1 January 2014.

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):

	Basel III	Basel II	
	30 June	30 June	31 December
	2014	2013	2013
	NIS millions		
Tier 1 shareholders' equity *			
Share capital	7,059	7,059	7,059
Premium	1,129	1,129	1,129
Reserves	19,186	17,360	18,278
Unrealized profits (losses) from adjustments of available-for-sale securities at fair value	173	-	-
Adjustments from translation of financial statements of companies included on equity basis	(273)	(194)	(242)
Capital reserves due to share-based transactions and loans to employees to purchase shares of the Bank	(29)	(30)	(30)
Other capital reserves	58	51	50
Noncontrolling interests	286	318	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 Bank's own credit risk	(261)	-	-
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	-	(400)	(321)
Total Tier 1 shareholders' equity after deductions *	27,328	25,293	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	-	6,100	6,149
Deferred notes	-	10,171	8,395
Noncontrolling interests in capital in subsidiaries pursuant to the transitional provisions in Regulation No. 299	7	-	-
Collective allowance for credit losses before the effect of related tax	2,723	-	-
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	-	129	100
General provision for doubtful debts	-	428	428
Amounts reduced from Tier 2 Capital	-	(64)	(65)
Total Tier 2 capital	14,365	16,764	15,007
Total capital base for capital adequacy purposes	41,693	42,057	41,270

* Tier 1 shareholders' equity in Basel II data should be considered as 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			
	30 June 2014		30 June 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	761	95	904	81	788	71
Debts of public sector entities	2,416	302	2,391	215	2,242	202
Debts of banking corporations	4,126	516	4,695	423	4,372	393
Debts of securities company	108	14	-	-	35	3
Debts of corporations	107,683	13,460	106,673	9,601	104,523	9,407
Debts collateralized by commercial real estate	44,986	5,623	46,549	4,189	45,191	4,067
Retail exposures to individuals	28,657	3,582	25,010	2,251	26,639	2,398
Loans to small businesses	10,261	1,283	10,047	904	10,657	959
Housing loans	39,680	4,960	35,754	3,218	28,375	3,454
Securitization	750	94	951	86	831	75
Other assets	18,544	2,318	14,287	1,286	13,895	1,251
Risk assets and capital requirements in respect of CVA risk (1)	2,660	332	-	-	-	-
Total in respect of credit risk (1)	260,632	32,579	247,261	22,254	247,548	22,280
Risk assets and capital requirements in respect of market risk (1)	11,661	1,458	12,134	1,092	10,510	946
Risk assets and capital requirements in respect of operational risk (2)	20,328	2,541	20,680	1,861	20,426	1,838
Total risk assets and capital requirements (4)	292,621	36,578	280,075	25,207	278,484	25,064
Total capital base for capital adequacy	41,693		42,057		41,270	
Total capital ratio	14.25%		15.02%		14.82%	
Tier 1 shareholders' equity ratio (Basel II – Tier 1 capital ratio)	9.34%		9.03%		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
	30 June 2014	31 December 2013
	%	
Leumi – on consolidated basis	14.25	14.82
Arab-Israel Bank	13.21	12.50
Leumi Card	17.14	16.00
Bank Leumi USA (1)	15.08	14.54
Bank Leumi UK	19.16	16.39
Bank Leumi Switzerland	24.88	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 half of 2014, the GDP of the Israeli economy grew in real terms at 2.8%, compared with the corresponding period last year. In the second quarter of the year, the growth rate in annual terms amounted to 1.7% in annual terms, compared with the first quarter, while the product of the business sector grew by 2.3% in annual terms. The moderate growth in the second quarter was attributable primarily to a fall in exports of goods and services and a contraction of investments in fixed assets.

In the first six months of the year, the Israeli consumer price index was stable. Bank of Israel interest rates fell during this period by 0.25 percentage points from 1.0% at the end of 2013 to 0.75% in March 2014, a level which was retained in June. The low inflationary environment which was under the price stability target allows the monetary policy to support growth in the economy which is experiencing economic slowdown. In the interest rate decisions for August, the interest level was reduced to 0.50%. In the first half of the year, the shekel appreciated against both the dollar and the euro, further to its significant strengthening in 2013.

In the first half of the year, the capital market was characterized by price increases. The share and convertible securities index rose during the first half of 2014 by some 7.4%, even though in the second quarter it posted price falls. The indices of government debentures also increased and the unlinked index of fixed-interest government debentures rose, particularly notably rising by 5.0%.

Operation "Protective Edge"

On 8 July 2014, Operation "Protective Edge" began. The period of fighting caused economic damage in the various areas of the country, and in various sectors of the economy. In this context, the Bank of Israel noted in an announcement to the press on 28 July, 2014 regarding the interest decision: "It is still not possible to estimate the economic effect of the security situation. However, the effect of security incidents of a similar size in the past decade amounted to a moderate macro-economic impairment of up to half a percent of GDP (the Second Lebanon War). Recovery from previous incidents was usually rapid, although the damage in some sectors, notably the tourism industry, is likely to persist for some time."

On 7 August 2014, the Finance Ministry announced that, according to its assessment, with a large degree of certainty, it will be possible to contain the costs of the operation from the 2014 budget.

On 9 July 2014, in light of Operation "Protective Edge", the Supervisor of Banks published a number of reliefs for the public managing their accounts living on the confrontation line. On 27 July 2014, in view of the continuation of the special situation on the frontline, the Supervisor of Banks expanded the reliefs which he gave to individuals and businesses operating within 0-40 kilometers of the Gaza even if their accounts are not managed in branches within this area, and also directed the banks to grant reliefs to soldiers on reserve duty.

The Bank granted reliefs, inter alia, on deviations from credit facilities, activity by means of Internet banking, telephone instructions and charges according to authorization. In addition, the Bank refrained from restricting accounts and account-holders, due to rejected cheques, whose registered address was in towns for which a special frontline status had been declared. The Bank will increase the telephone service centers and a designated line was set up for customers wishing to receive information or to execute a transaction in their account, even if they had not subscribed to the service for telephone instruction. In addition, the Bank offered designated products for retail customers on the confrontation line.

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

The Global Economy

In July 2014, the International Monetary Fund ("the Fund") revised its estimate of expected development of global growth for 2014. In the advanced countries, there was a downward revision in the forecasts, compared to the revision made in April 2014, particularly with the revision in the growth in the American economy due to the fall in GDP in the first quarter, factors of a temporary nature, such as the harsh weather. According to the Fund's revised estimates, growth in the United States and in the euro area in 2014 is expected to total 1.7% (compared with 2.8% in the last estimate) and 1.1% (a similar rate to the last estimate), respectively compared with 1.9% and (-0.4%), respectively in 2013. The forecast for growth in world GDP in 2015 remains unchanged.

The State Budget and its Financing

The months from January-June 2014 saw a surplus of NIS 4.0 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 10.2 billion in the corresponding period last year. Government ministry expenditure during this period expanded by 3.9%, while tax collection increased by 8.8%, both as a result of an increase in direct taxes and the effect of an increase in indirect taxes.

Proposed Value Added Tax Law (Tax Benefit in Transaction to Purchase a Beneficiary Residential Apartment), 2014 – "Zero-Rate VAT" program

On 7 July, 2014, the Knesset approved in a first reading the proposed Value Added Tax Law (Tax Benefit in Transaction to Purchase a Beneficiary Residential Apartment), 2014. The proposed law provides that the benefit will apply to purchasers who acquire a new apartment from a contractor, with effect from September 2014. Pursuant to the proposal, eligible for the benefit is a resident of Israel who is a parent to at least one child in his/her custody, or who is 35 years or older, or who does not own an apartment, and who has not owned an apartment since 1995. The benefit will be valid to those that have served in the army and national or civil service in the purchase of an apartment at a cost of NIS 1.6 million, while for those who have not served in the army or in national service, it will apply in the purchase of an apartment at a cost of NIS 950 thousand.

The proposed law was discussed the Knesset Finance Committee a number of times during July and August, in anticipation of a second and third reading, although it has not been brought to a vote to date (prior to the recess).

"Target Price" Program

The Israel Lands Council has prepared a program for the publication of tenders using the "Price Target" method. Under the program, until 2019, 66,000 residential units will be offered at prices, which will be 20% lower than their market value. The plan has yet to be approved.

The housing market

The second quarter of 2014 was characterized by a fall in the volume of sales of new residential apartments, apparently as a result of the effect of waiting for the approval of a proposed law and government initiatives (the target price program and the zero VAT plan) which have implications for the taxation of residential apartments and attempts to limit their price, which raise expectations among households that there will be a certain decrease in housing prices.

As a part of this, in the second quarter of the year, the volume of sales fell by 14.0%, compared to the first quarter and by 22.4% compared with the corresponding period in the previous year.

Recommendations of the Committee to Examine the Reduction in Use in Cash in the Israeli Economy

On 17 July 2014, the recommendations of the Committee to Examine the Reduction in Use in Cash in the Israeli Economy were published. Inter alia, the Committee recommends that in cash transactions to which one of the parties is a trader, in the first stage, a limit of NIS10,000 per transaction will be fixed, and the second stage, the amount will be reduced to NIS 5,000 per transaction. In transactions between two parties, the limit will stand at NIS 50 thousand at the first stage and later, it will go down to NIS 15,000, except for transactions for the sale of used cars. The Committee recommends that a breach of the prohibition on executing cash transactions will be determined to be a criminal offense, in respect of which an administrative penalty will be imposed on individual entities, or a monetary sanction on traders.

The recommendations further include limits relating to the use of cheques, including the restriction of the possibility of paying a cheque which trades more than once, the determination of a prohibition on expending and receiving cheques on which the name of the beneficiary is not noted, and a limit on the amount of a transaction by cheque in an amount to be determined, which will be not less than NIS 1 million.

In addition, the Committee recommends promoting the use of advance electronic means of payment, including expanding the use of immediate debit cards and chargeable identifiable cards and establishing reduced cross-commissions for transactions carried out using such cards. The Committee also recommends promoting the use of advance security requirements in debit cards: advancing a virtual wallet and a digital cheque; promoting electronic clearing and increasing the government al use of electronic means of payment. The Committee's recommendations were passed for Government approval.

Foreign trade and capital transactions

Israel's aggregate trade deficit in the first half of 2014 amounted to some US\$ 6.5 billion, an increase of some 7.9% compared with the deficit for the corresponding period last year. The increase in the trade deficit is due to an increase in imports, compared with a slightly smaller increase in exports. It should be noted that in the second quarter of the year, exports fell compared with the first quarter. A continuing strengthening of the shekel and slow growth worldwide were major factors for this.

Foreign currency capital transactions in the first six months of 2014 were characterized by a volume of foreign currency capital outflows higher than capital inflows. In particular, direct investments in Israel, via the banking system, amounted to US\$ 4.8 billion during the said period, while financial investments also amounted to US\$ 3.1 billion. However, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US\$ 12.5 billion, most of which consisted of financial investments, of which some are hedged against currency risk.

Exchange Rate and Foreign Currency Reserves

In the first half of 2014, the exchange rate of the shekel appreciated some 1.0% against the dollar (almost entirely in the second quarter), with an appreciation of some 1.8% against the euro. This was influenced by the continuation of the large volume of capital inflows, despite 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 June 2014 amounted to some US\$ 86.8 billion. This compared with US\$ 81.8 billion at the end of December 2013.

In the period January-June 2014, foreign currency purchases by the Bank of Israel totaled US\$ 4.15 billion, of which US\$ 1.75 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 remained stable during the first half of the year, while in the twelve months to June 2014, the index increased by some 0.5%, a rate which is situated under the lower limit of the Government's target range of the price stability of 1% to 3%. Most of the increase in the index in the past year was in the housing sector, which increased by some 2.3%. In contrast, four items in the index fell during the last year, so moderating the overall rate of increase in the index.

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%, and remained at this level in June 2014. 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. In the interest decision for August, the rate was lowered to 0.50%.

Capital market

The shares and convertible securities index rose by some 7.4% in the first half of the year, following an increase of some 15.3% in the whole of 2013. However, in the second quarter of the year, prices fell by 1.5%, mostly in April, against a background of the realization of profits after the indices had reached record levels.

Average daily trading volumes of shares and convertible securities increased by some 3.2% during the first half of 2014, compared with the average for 2013, and amounted to some NIS 1,209 million on a daily average. It should be noted that, in the second quarter, the volume of trading fell compared with the first quarter.

The Government bond market was characterized by moderate price increases during the first six months of the year. The price of index-linked Government bonds rose by 4.8%, while unlinked government bonds rose by some 4.3% (the fixed interest bond indices rose by some 5.0% and the variable interest (*Gilon*) bond index increased by only 0.6%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 2.9% over the period, January –June 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 – May 2014 by 3.0%, reaching NIS 3,055 billion at the end of May 2014. This increase in the value of the portfolio derived from an increase in all of its components. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 24.2% at the end of March 2014, compared with some 24.1% in December 2013.

Bank credit

Total bank credit in the economy granted to the private sector, including the corporate and household credit (before allowances for credit losses) increased by 1.5% in the first five months of the year. This was the result of a slight increase of 0.7% in credit extended to the corporate sector and a rise in credit extended to households. The development of components of credit to households indicated an increase of 2.6% in housing credit, with non-housing credit (consumer credit) expanding by 1.9%.

The table below shows Israel's and the Bank's credit ratings as at 17 August 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	positive
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 30 June 2014, the price of Leumi shares fell from 1,418 points to 1,339 points, a decrease of 5.6%. During this period, the Bank's market value fell from a level of some NIS 20.9 billion to a level of NIS 19.7 billion.

The following table sets out the principal representative exchange rates:

	30 June		31 December	
	2014	2013	2013	2012
	In NIS			
U.S. dollar	3.438	3.618	3.471	3.733
Euro	4.694	4.720	4.782	4.921
Pound sterling	5.860	5.521	5.742	6.037
Swiss franc	3.863	3.824	3.897	4.077

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

and exchange rates.

	First half of			
	2014	2013	Year 2013	
	(in percentages)			
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	(0.2)	0.7	1.9	
Rate of decrease of the U.S. dollar exchange rate	(1.0)	(3.1)	(7.0)	
Rate of decrease of the euro exchange rate	(1.8)	(4.1)	(2.8)	
Rate of increase (decrease) of the pound sterling exchange rate	2.1	(8.5)	(4.9)	
Rate of decrease of the Swiss franc exchange rate	(0.9)	(6.2)	(4.4)	

	2014		2013			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)					
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	(0.5)	(0.7)	(0.1)	1.3	0.7	-
Rate of increase (decrease) of the U.S. dollar exchange rate	(1.4)	0.5	(1.9)	(2.2)	(0.8)	(2.3)
Rate of increase (decrease) of the euro exchange rate	(2.5)	0.6	0.2	1.1	1.3	(5.3)
Rate of increase (decrease) of the pound sterling exchange rate	0.9	1.1	0.6	3.4	(0.2)	(8.3)
Rate of increase (decrease) of the Swiss franc exchange rate	(2.1)	1.3	(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.

Legislation and regulation relating to the Banking System

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.

Banking Order (Early Repayment Commissions) (Amendment), 2014

On 23 July 2014, the Knesset Finance Committee approved an amendment to Banking Order (Early Repayment Commissions), 2002. Pursuant to the amendment, the formula for the early repayment of loans to purchase housing or as collateral for housing was updated, such that the calculation of the commission will take into account, *inter alia*, the average interest in the market on the date of extending the loan.

In addition, the abovementioned order includes additional amendments, including – an amendment of the definition of "average interest" in a way that will enable the Supervisor of Banks to determine, if necessary, and with the approval of the Finance Committee – the calculation of other interest, the Bank's charge on giving a full exemption from the commission on the failure to give early notice, in the event of the death of the borrower; an increase in the maximum number of days, for giving early notice from 30 days to 45 days before the date of early notice; a determination that it is possible to furnish the Bank with early notice not just via mail or personal delivery, but also via fax or any other means of communication suggested by the Bank, in accordance with the customer's request; the addition of a request for a detail, on an explanatory page forwarded to the borrower, the rates of amortization to which he is entitled by virtue of the order and the loan agreement, and the details of creating the connection with the banking corporation for giving early notice; the limitation of the period for delivering an update page to the borrower, for a period of up to 60 days from the date of making the repayment.

Proposed Remuneration to Office-holders in Financial Corporations (Special Approval and Disallowance of Expense for Tax Purposes due to Unusual Remuneration), 2014

On 28 July 2014, the proposed law mentioned above was approved in a second reading. The proposed law sets limits on the remuneration of office-holders or other employees in financial entities, including, banking corporations, where the remuneration amount exceeds NIS 3.5 million. *Inter alia*, the proposed law establishes a strict procedure for the approval of remuneration exceeding NIS 3.5 million a year. In addition, the proposed law provides that the cost of salary to an office-holder or other employee, in excess of the ceiling of NIS 3.5 million a year, will not be allowed for deduction from a financial entity's taxable income.

Memorandum of Antitrust Law (Amendment no. 16) – Determination of Cross-Commission), 2014

On 10 August 2014, a memorandum of the Antitrust Law (Amendment no. 16 – Determination of Cross-Commission), 2014 was published. In the context of the amendment to the law, the Antitrust Commissioner ("the Commissioner") will be authorized to determine rates of cross-commission of transactions in debit cards, in lieu of the existing legal arrangement (approval of a restrictive arrangement in the Antitrust Court). The Antitrust Commissioner will be able to set a cross-commission at various rates, including a cross commission at zero rate, where he considers that various transactions have features which justify such treatment.

In addition, the amendment to the law provides criminal liability and the possibility of a monetary sanction in respect of payment or the collection of cross-commission at a rate different from that determined by the Commissioner, and that the juridical supervision on the Commissioner in exercising his authority as above, including an appeal against the Commissioner's decisions in the determination of cross-commission, will be made via the Court for Administrative Affairs.

Legislation and Regulation in Pension Consulting

On 27 May 2014, the Supervisor of the Capital Market, Insurance and Savings Division in the Ministry of Finance ("the Supervisor") published an amendment to the circular "Uniform Structure for Transferring Information and Data in the Pension Savings Market", pursuant to which the provisions of Appendix D to the circular regarding the interface of events and provisions of Appendix F to the circular regarding the structure of the file name were updated. The changes in the circular will come into force with effect from 1 January 2015.

On 12 June 2014, the Finance Ministry published a revised version of the draft of the Supervisory Regulations on Pension Services (Provident Fund) (Distribution Commissions), 2014, which were forwarded for the approval of the Knesset Finance Committee, pursuant to which the effective date of the regulations was updated to 1 January 2015, with, in respect of the distribution commission paid prior to the publication of the regulations, the provisions of the regulations will apply with effect from 1 January 2016.

On 16 June 2014, the Supervisor published a second draft of the "explanatory document" circular which was intended to establish a focused and uniform structure for the explanatory document and is expected to replace a number of circumstances dealing with an explanatory document and other documents which a license holder is required to transfer to the customer during a pension marketing or pension consulting transaction.

On 18 June 2014, the Supervisor published a draft of the circular "Power of Attorney for a License Holder", pursuant to which additional methods for the verification of the power of attorney by a license holder were detailed. In addition, in the draft of the amendment, the opening paragraph of the provisions of the circular was updated in relation to whose customers pension consulting was provided before the date of publishing the amendment to the Supervision of Financial Services (Consulting, Marketing and Pension Clearing Systems Law), 2005 on 10 March 2011 regarding a central pension clearing system.

Directives of the Supervisor of Banks

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.

Proper Conduct of Banking Business Management Regulation No. 422 – Opening and Managing a Current Account in a Credit Balance

On 26 May 2014, the Banking Supervision Department published Regulation no. 422 regarding opening and managing a current account in a credit balance. The directive specifies those cases in which a banking corporation is obliged to address a customer's request to open a current account in a credit balance.

In addition, the directive defines those services and means of payment which a banking corporation will be obliged, as a rule, to place at the disposal of its customers, including, making payments by way of charges according to an authorization, use of a card for immediate debit, use of a card for the purpose of cash withdrawal, information retrieval service via a service stand in a branch and an approach via the Bank's website, and requires to furnish the customer who submitted a request to open an account and met with a refusal decision in writing in relation to a refusal, within five business days of the date of submitting the request. The directive will come into force gradually.

Amendment to Proper Conduct of Banking Business Management Regulation No. 355 – Management of Business Continuity

On 26 May 2014, the Banking Supervision Department published an amendment to Regulation no 355 regarding the management of business continuity. Proper Conduct of Banking Business Management Regulation 355, the banking corporations are required to prepare for national and other reference scenarios which are likely to cause them substantial damage. In addition, individual consideration was given to the need for the existence of alternative sites in the Bank's main sites, including a disaster recovery site which is intended for the recovery of data and information systems. Pursuant to the amendment, a paragraph determining guiding principles for the minimum protection of the various critical sites was added the directive, for the purpose of withstanding national and other reference scenarios.

Amendment to Proper Conduct of Banking Business Management Regulation 403 – Non-banking Benefits to Customers

On 6 July 2014, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Management Regulation 403 – Non-banking Benefits to Customers. Pursuant to the amendment, Proper Conduct of Banking Business Management Regulation 470 regarding debit cards was also amended.

According to the amendment, it is provided that, as a rule, banks and credit card companies are not authorized to provide a non-banking benefit by way of opening and managing a current account, or by way of providing other banking services, including the placement of a deposit, extending or utilizing credit, opening and managing an investment portfolio, investment advice or pension consulting, clearing and discounting.

However, the directive permits the provision of a non-banking benefit by way of submitting a request on the part of a customer for the issue, holding and use of a debit card, on opening a current account and in other cases set forth in the directive, all providing these non-banking conditions will not be conditional on a commitment with the banking corporation for any periods of time, a requirement for their recovery.

In addition, the directive provides that on publishing a non-banking benefit, the banking corporation must present material information in connection with the benefit. In addition, if the banking corporation has chosen to present in its announcement regarding the price of a product or a service after the benefit, it will also be required to present the price before the benefit, where such exists. In addition, the banking corporation is required to publish the full details of the non-banking benefit on its website.

Proper Conduct of Banking Business Management Regulation 312 – Transactions of a Banking Corporation with Related Persons

On 10 July 2014, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Management Regulation 312 on Transactions of a Banking Corporation with Related Persons and an indirect amendment for the purpose of adjustment, to Proper Conduct of Banking Business Management Regulation 301. As part of the amendment, the definition of "related person" was expanded, inter alia, to entities holding more than 5% of the means of control in a banking corporation, to office-holders in those entities, their relatives and corporations under their control, and to shareholders in a banking corporation without a controlling core which proposed a candidate for office as director in a banking corporation, its relatives and corporations under their control, and to anyone holding 10% and more of any class of the means of control in a corporation controlled by the banking corporation or relative of a holder as aforesaid. In addition, individual limits were imposed on the obligations of related persons, as well as an overall restriction, and an update in relation to

transactions which must be brought for approval in the Audit Committee or the Transactions with Related Persons Committee. The effective date of the amendment to the directive is 1 January 2015. The amendment provides provisions for regulating the obligations of anyone who became related persons, as far as they exceed the limits provided.

Proper Conduct of Banking Business Management Regulation 418 – Opening accounts via the Internet

On 15 July 2014, the Bank of Israel published a directive permitting the opening of an account on the Internet for an Israeli resident individual, who is over the age of 18, providing the account will have no beneficiaries other than the account-holders. After opening the account, no addition or change to the account-holders will be permitted. The account will be marked and identified in the bank's automated system as an account which was opened online for the purposes of monitoring risks.

The identification of the customer, pursuant to the directive, will be done using non-original documents, and the "Know Your Customer" will be carried out by means of video-conferencing.

In addition, the directive sets forth quantitative and other limits which will apply to activity in the account.

The aforesaid restrictions on the online account, set out in the directive, will be removed only after completion of the full identification of the customer.

Proper Conduct of Banking Business Management Regulation 329 – Restrictions on the Granting of Housing Loans and a letter from the Supervisor of Banks on this subject

On 15 July 2014, the Supervisor of Banks published Proper Conduct of Banking Business Management Regulation (hereinafter: "the Directive") incorporating a number of provisions which it published in recent years relating to various restrictions with regard to housing loans (inter alia, limits on the rate of financing, a limit on the part of a loan at variable interest, on the rate of return from income, on the period to final repayment, etc.) and redefines the term "rate of return from income", and a letter of the Supervisor of Banks regarding the Directive providing a limit on the amount of the loan which permits the receipt of mitigated risk weight for the purpose of weighting capital.

The Directive includes a new definition of "rate of return from income", in place of the previous definition in Directive no. 876 of the Supervision Reporting Regulations of the Bank of Israel – Banking Supervision Department. Inter alia, it is provided in the new definition that, in the computation of the rate of return from income, in addition to the income of the borrower, it is possible to recognize half of the monthly available income of a close family member of the borrower (hereinafter: "the relative"), providing all of the following conditions are fulfilled: prior to the loan, the relative acts as a guarantor the bank has conducted a repayment capacity examination as carried out for the borrower himself, the relative himself pays from his bank account, at least, 20% of the monthly repayment amount.

In a letter from the Supervisor of Banks, a limit of NIS 5 million was set for the amount of the loan which permits the receipt of mitigated risk weight pursuant to clause 72 of Proper Conduct of Banking Business Management Regulation 203. For capital weighting purposes, it was determined that a loan whose amount exceeds NIS 5 million should be weighted by 100%.

It was also provided that the new topics defined in the Directive and in the Supervisor of Banks; letter, mentioned above, will apply with regard to housing loans to which approval has been given in principle, from the earliest date possible, but no later than 1 October 2014 (hereinafter: "the effective date").

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 30 June 2014, the governments of Israel and the United States signed an agreement to improve the enforcement of international tax and the implementation of the provisions of the FATCA (Foreign Accounts Tax Compliance Act) (hereinafter: "the 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 sets out the steps that the financial institutions in Israel will be required to take in order to locate the accounts of American customers and report on them. The agreement will come into force with the notification of the Government of Israel to the United States Government on the completion of all the legislative proceedings necessary in order to implement the agreement in Israel. To date, these proceedings have not been completed.

Bank Leumi commenced the implementation of FATCA on 1 July 2014, following nearly three years of preparations and in accordance with the directives of the Supervisor of Banks dated 6 April 2014, for the implementation of the FATCA in the banking corporations. In this regard, a number of directives were implemented, as outlined below:

1. Corporate governance proceedings – Appointment of a responsible official, organization of a designated work team directly subject to a member of management, approval of policy by the Board of Directors, procedures and reports to the management and the Board of Directors.
2. Recording of the Bank and the relevant subsidiaries in the portal of the U.S. tax authorities, in accordance with the time-tables provided in the directives.
3. Arranging the conduct of behavior with customers, in particular, the possibility of refusing to provide certain banking services to customers, which do not cooperate with banking corporation in the way required to implement the FATCA regulations.

Consortium arrangements for granting credit

On 30 June 2014, the effective term of a letter from the Antitrust Commissioner to managers of banks and insurance companies was extended. The letter details conditions, the fulfillment of which the Antitrust Authority has no intention of enforcing the provisions of the Antitrust Law, 1988 ("the Law"), on the connection between banks and between insurance companies and between them and between themselves ("banks and institutional entities") in credit consortia. As part of the extension, the Antitrust Commissioner announced that he did not intend to prescribe new conditions for the connection of credit consortia, as aforesaid, in the near future.

The said effective term in the Commissioner's notice is 31 December 2014, unless other notice is presented prior to the end of the period.

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, generally accepted accounting principles in banks in the United States on the subject of the measurement of interest income and the regulations of the Banking Supervision Department and the bringing forward of the publication date of the financial statements were implemented for the first time, 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 and contingent 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. The circular provides that this treatment, according to which the liabilities in respect of employee rights will be discounted at the market yields of government bonds in Israel, is appropriate for a situation in which there is no market in Israel in which there is no deep market of high-quality corporate debentures. The circular further provides that if it is determined that there is a market in Israel in which there is a deep market of high-quality corporate debentures, the Bank of Israel will reconsider the directive to make use of government bond market yields.

- 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.

The Israel Securities Authority intends to examine the question of the existence of a deep market in high-quality government bonds in Israel and the way it is implemented in accordance with the IFRS principles of such possible determination, and on completing the examination, the Authority will publish its position on these matters. The Banking Supervision Department is also currently considering the issue of determining the discounting rate to be employed in computing the liability for employee rights in the banking system.

Pursuant to the circular published by the Banking Supervision Department, the Bank is required to provide disclosure in the financial statements of at least the estimate of the quantitative effect on the shareholders' equity of the calculation of the liabilities for employees' rights due to the change in the discounting rate. According to the Bank's assessment, If the standard were applied on 30 June 2014 in accordance with the present interest environment, the expected effect on the shareholders' equity of the Bank as of 30 June 2014 in respect of the impact of the change in the discounting rate would be a reduction of some NIS 3.5 billion, after the effect of tax (NIS 5.5 billion before the effect of tax), based on the market yield of government bonds at the reporting date. If the liabilities were discounted on the basis of the market yields of AA-rated corporate debentures in Israel at the reporting date, a treatment which is consistent with the existence of a "deep market" for high-quality corporate debentures in Israel, the expected impact on the Bank's shareholders' equity as of 30 June 2014 is a reduction of NIS 1.4 billion after the effect of tax (NIS 2.2 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 subsequent 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. One of those possible effects is the method and period for accruing liabilities. From preliminary estimates and interpretations, it appears that the effect of change in the method of accruing liabilities is liable 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 increase 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 until 2018.

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. Most of them (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, to which the President and Chief Executive Officer, the Head of the Economics and Finance Division, the Chief Accounting Officer, the Chief Internal Auditor and others are invited.

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, 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, to which the President and Chief Executive Officer, the Head of the Economics and Finance Division, the Chief Accounting Officer, the Chief Internal Auditor are invited, 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 law. The committee currently consists of five directors, including two external directors pursuant to the Companies Law, including the committee chairman. Two members of the committee are external directors pursuant to the directives of the Supervisor of Banks and all of the abovementioned external directors (both those pursuant to the Companies Law and those pursuant to the directives of the Supervisor of Banks) 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 half of 2014 was NIS 915 million, compared with NIS 1,044 million in the corresponding period in 2013, a decrease of 12.4%.

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

	Three months ended			
	30 June 2014	30 June 2013	Change	
	NIS millions		NIS millions	%
Net income interest (a)	1,905	1,839	66	3.6
Income (expenses) in respect of credit losses	16	(84)	100	-
Non-interest income (a)	1,250	1,246	4	0.3
Other operating expenses	(2,515)	(2,179)	(336)	15.4
Profit before taxes	656	822	(166)	(20.2)
Provision for tax	(369)	(284)	(85)	29.9
Profit after taxes	287	538	(251)	(46.7)
The Bank's share in losses of companies included on equity basis (b)	(14)	(54)	40	74.1
Net profit attributed to non-controlling interests	17	(10)	27	-
Net profit attributed to shareholders in the banking corporation	290	474	(184)	(38.8)

The change in net profit in the first half of 2014 compared to the corresponding period last year is explained as follows:

	For the first half ended			
	30 June 2014	30 June 2013	Change	
	NIS millions		NIS millions	%
Net income interest	3,662	3,601	61	1.7
Income (expenses) in respect of credit losses	67	(157)	224	+
Non-interest income	2,624	2,715	(91)	(3.4)
Other operating expenses	(4,639)	(4,236)	403	(9.5)
Profit before taxes	1,714	1,923	(209)	(10.9)
Provision for tax	(754)	(747)	(7)	0.9
Profit after taxes	960	1,176	(216)	(18.4)
The Bank's share in losses of companies included on equity basis	(51)	(111)	60	(54.1)
Net profit attributed to non-controlling interests	6	(21)	27	-
Net profit attributed to shareholders in the banking corporation	915	1,044	(129)	(12.4)

The net profit of the Leumi Group amounted to NIS 290 million in the second quarter of 2014, compared with NIS 474 million in the corresponding period last year, a decrease of 38.8%.

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

	2014		2013			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Net interest income (a)	1,905	1,757	1,810	1,946	1,839	1,762
Income (expenses) in respect of credit losses	16	51	(155)	44	(84)	(73)
Non-interest income (a)	1,250	1,374	1,420	1,382	1,246	1,469
Operating and other expenses	(2,515)	(2,124)	(2,254)	(2,443)	(2,179)	(2,057)
Profit before taxes	656	1,058	821	929	822	1,101
Provision for tax	(369)	(385)	(299)	(345)	(284)	(463)
Profit after taxes	287	673	522	584	538	638
Group's share in operating losses of companies included on equity basis (b)	(14)	(37)	(165)	(17)	(54)	(57)
Net loss (profit) attributable to non-controlling interests	17	(11)	(9)	(12)	(10)	(11)
Net profit attributable to shareholders in the banking corporation	290	625	348	555	474	570

(a) During 2014, 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, affecting net interest income and the item, commissions - see Note 1(c)1.

(b) Regarding the bringing forward the date of publication of the financial statements and the reporting gap in respect of an associate company, see Note 1(b) below.

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

Net interest income of Leumi Group amounted in the first half of 2014 to NIS 3,662 million, compared with NIS 3,601 million in the corresponding period in 2013, an increase of NIS 61 million or 1.7%.

In the second quarter of 2014, net interest income amounted to NIS 1,905 million compared with NIS 1,839 million in the corresponding period in 2013, an increase of 3.6%.

The ratio of net interest income to the average balance of income-bearing assets is 2.24% (in annual terms) compared to 2.19% 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 half ended		
	2014	2013	Change
	NIS millions		%
Households	1,309	1,330	(1.6)
Small businesses	517	463	11.7
Corporate banking	630	705	(10.5)
Commercial banking	700	687	1.9
Private banking	144	152	(5.3)
Financial management	356	260	36.9
Other	6	4	50.0
Total	3,662	3,601	1.7

Total interest margin in the first half of 2014 was 2.15%, compared with 2.04% in the corresponding period in 2013.

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

In the unlinked shekel sector, 2.56%, compared with 2.49% in the corresponding period in 2013. The interest margin in the foreign currency segment increased from 1.66% to 2.01%. In the index segment, the interest margin was 0.47%, compared to 0.31% in the corresponding period in 2013.

Income (expenses) in respect of credit losses in the Leumi Group for the first half of 2014 amounted to income of NIS 67 million, compared with expenses of NIS (157) million in the corresponding period in 2013.

Income (expenses) in respect of credit losses in income for the second quarter amounted to some NIS 16 million, compared with expenses of NIS (84) million in the corresponding period in 2013.

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

	2014			2013					
	First half	2nd quarter	1st quarter	Total 2013	4th quarter	3rd quarter	First half	2nd quarter	1st quarter
	NIS millions								
Individual expense (income) in respect of credit losses	(191)	(114)	(77)	11	59	(80)	32	39	(7)
Collective expense in respect of credit losses	124	98	26	257	96	36	125	45	80
Total expense (income) in respect of credit losses	(67)	(16)	(51)	268	155	(44)	157	84	73
Percentage ratios (in annual terms)									
Individual expenses (income) in respect of credit losses to total credit to the public, net	(0.08)	(0.19)	(0.12)	-	0.10	(0.13)	0.03	0.07	(0.01)
Collective expenses in respect of credit losses to total credit to the public, net	0.05	0.16	0.04	0.11	0.16	0.06	0.10	0.08	0.13
Total expenses (income) in respect of credit losses to total credit to the public, net	(0.03)	(0.03)	(0.08)	0.11	0.26	(0.07)	0.13	0.15	0.12
Individual expenses (income) in respect of credit losses to total credit risk to the public	(0.05)	(0.12)	(0.09)	-	0.06	(0.09)	0.02	0.04	(0.01)
Collective expenses (income) in respect of credit losses to total credit risk to the public	0.03	0.11	0.03	0.07	0.10	0.04	0.07	0.05	0.09
Total expenses (income) in respect of credit losses to total credit risk to the public	(0.02)	(0.01)	(0.06)	0.07	0.16	(0.05)	0.09	0.09	0.08

* (-) less than 0.01

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

	30 June 2014	30 June 2013	31 December 2013
Credit loss allowance on a collective basis (NIS millions)	2,727	2,640	2,702
Balance of credit loss allowance on a collective basis to total credit to the public, net (%)	1.12	1.11	1.12
Balance of credit loss allowance on a collective basis to total credit risk to the public, net (%)	0.74	0.72	0.72

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

	First half of 2014		First half of 2013	
	NIS millions	% *	NIS millions	% *
Households	121	0.2	127	0.3
Private banking	(1)	-	3	0.1
Small businesses	50	0.4	58	0.5
Corporate banking	(214)	(0.7)	(128)	(0.4)
Commercial banking	(21)	(0.1)	145	0.6
Financial management and other	(2)	(1.0)	(48)	(16.7)
Total	(67)	(0.1)	157	0.13

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

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

	First six months of 2014	First six months of 2013
	NIS millions	
Industry	(32)	8
Construction and real estate	(186)	25
Trade	13	(5)
Hotel, food and entertainment services	7	(1)
Transportation and storage	18	2
Communications and computer services	(41)	(4)
Financial services	132	(48)
Other business services	4	60
Private individuals - housing loans	10	46
Private individuals – other	12	71
Others	(8)	(1)
Total public	(71)	153
Total banks	4	4
Total	(67)	157

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

	First half of		
	2014	2013	Change
	NIS millions		%
The Bank	(123)	(27)	-
Leumi Card	10	6	66.7
Arab Israel Bank	5	1	+
Leumi – U.S.A.	7	37	(81.1)
Leumi – U.K.	32	148	(78.4)
Leumi Romania	3	(8)	+
Leumi Tech	(1)	-	-
Total expenses (income) in respect of credit losses	(67)	157	-

Problematic credit risk

On a consolidated basis	30 June 2014		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	5,358	274	5,632
Subordinate credit risk	2,045	640	2,685
Credit risk under special supervision (2)	2,639	445	3,084
Total problem credit	10,042	1,359	11,401
Of which: Unimpaired debts in arrears 90 days or more (2)	1,250	-	-
2. Non-performing assets:			
Impaired debts	4,876	-	-
Assets received in respect of credit cleared	34	-	-
Total non-performing assets	4,910	-	-
On a consolidated basis	30 June 2013		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	6,140	386	6,526
Subordinate credit risk	1,913	28	1,941
Credit risk under special supervision (2)	2,732	601	3,333
Total problem credit	10,785	1,015	11,800
Of which: Unimpaired debts in arrears 90 days or more (2)	1,361	-	-
2. Non-performing assets:			
Impaired debts	5,870	-	-
Assets received in respect of credit cleared	101	-	-
Total non-performing assets	5,971	-	-
On a consolidated basis	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 90 days or more (2)	1,440	-	-
2. Non-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:

	30 June 2014	30 June 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	2.3	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	0.6	0.6
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public	1.5	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	77.7	70.7	74.5
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	2.7	2.8	2.9
Expenses in respect of credit losses as a percentage of the average balance of credit to the public (in annual terms)	(0.1)	0.3	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)	-	0.6	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)	0.7	18.9	13.2

Noninterest income of Leumi Group amounted to NIS 2,624 million in the first half of 2014, compared with NIS 2,715 million in the corresponding period in 2013, a decrease of NIS 91 million or 3.4%.

In the second quarter of 2013, noninterest income amounted to NIS 1,250 million compared with NIS 1,246 million in the corresponding period in 2013, an increase of 0.3%.

Noninterest income includes:

	For the six months ended		
	30 June 2014	30 June 2013	Change
	NIS millions		%
Non-interest financial income	495	623	(20.5)
Commissions	2,080	2,054	1.3
Other income	49	38	28.9
Total	2,624	2,715	(3.4)

Development in noninterest income by quarter is as follows:

	2014		2013			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Non-interest financial income	172	323	238	266	212	411
Commissions	1,040	1,040	1,084	1,050	1,029	1,025
Other income	38	11	98	66	5	33
Total	1,250	1,374	1,420	1,382	1,246	1,469

Details of non-interest financial income are as follows:

	For the six months ended			
	30 June 2014	30 June 2013	Change	
	NIS millions		NIS millions	%
Net income in respect of derivative instruments and net exchange rate differences	(3)	117	(120)	(102.6)
Profits from sale of available-for-sale debentures, net	117	123	(6)	(4.9)
Profits (losses) from investments in shares including dividends *	164	354	(190)	(53.7)
Net profits in respect of loans sold	-	77	(77)	-
Realized and unrealized profits (losses) from adjustments of tradable debentures and shares to fair value, net	217	(48)	265	-
Total	495	623	(128)	(20.5)

* In the first half of 2014, including mainly profit from the sale of shares of Partner, Tower and Electra amounting to NIS 70 million, NIS 61 million and NIS 17 million, respectively, before the effect of tax and in the first half of 2013, including profit on the sale of shares of Migdal and Caesar Stone and Partner amounting to NIS 180 million, NIS 86 million and NIS 34 million, (respectively) before the effect of tax.

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

	2014		2013			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Income (expenses), net, in respect of derivative instruments and net exchange rate differences	26	(29)	73	14	55	62
Profits from the sale of available-for-sale of debentures, net	35	82	52	34	24	99
Profits (losses) from investments in shares, including dividends *	35	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	76	141	87	(4)	(16)	(32)
Total	172	323	238	266	212	411

* Includes mainly profit from the sale of shares of Partner and Tower amounting to NIS 70 million and NIS 39 million before the effect of tax, respectively, in the first quarter of 2014 and profit from the sale of shares of Tower and Electra amounting to NIS 22 million and NIS 17 million, respectively, before the effect of tax in the second quarter of 2014.

2013 - Includes profit from the sale of shares of Migdal and Partner amounting to NIS 180 million and NIS 34 million before the effect of tax, respectively, in the first quarter of 2013, profit on the sale of shares of Caesar Stone 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 amounting to NIS 163 million before the effect of tax in the third quarter of 2013.

Details of commissions are as follows:

	30 June 2014	30 June 2013	Change	
	NIS millions		NIS millions	%
Account management	413	407	6	1.5
Activity in securities and derivative instruments	418	412	6	1.5
Credit cards	465	440	25	5.7
Dealing with credit	103 (a)	155	(52)	(33.5)
Commissions for distribution of financial products	138	125	13	10.4
Conversion differences	155	141	14	9.9
Commissions from financing transactions	236	219	17	7.8
Other commissions	152	155	(3)	(1.9)
Total commissions	2,080	2,054	26	1.3

(a) During 2014, 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, affecting net interest income and the item, commissions. See Note 1(c)1.

Income from commissions covers 44.8% of the operating and other expenses compared to coverage of 48.5% 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 half ended			
	30 June 2014	30 June 2013	Change	
	NIS millions		NIS millions	%
Households	902	882	20	2.3
Small businesses	246	262	(16)	(6.1)
Corporate banking	362	331	31	9.4
Commercial banking	275	275	-	-
Private banking	299	326	(27)	(8.3)
Financial management	509	627	(118)	(18.8)
Other	31	12	19	158.3
Total commissions	2,624	2,715	(91)	(3.4)

The proportion of non-interest income from all income (i.e., net interest income and noninterest income) was 41.7%, compared with 43.0% 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 half of 2014 amounted to NIS 4,639 million, compared with NIS 4,236 million in the corresponding period last year, an increase of 9.5%.

The increase in operating expenses arises mainly from expenses in connection with the investigation of the United States authorities.

Total operating and other expenses of Leumi Group in the second quarter of 2014 amounted to NIS 2,515 million, compared with NIS 2,179 million in the corresponding period last year, an increase of 15.4%.

Operating and other expenses include:

	For the six months ended			
	30 June 2014	30 June 2013	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	2,500	2,497	3	-
Maintenance and depreciation of buildings and equipment	878	938	(60)	(6)
Other expenses (including amortization of intangible assets)	1,261	801	460	57
Total operating and other expenses	4,639	4,236	403	10

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

	2014		2013				
	2nd	1st	Total	4th	3rd	2nd	1st
	quarter	quarter	for year	quarter	quarter	quarter	quarter
	NIS millions						
Salary and related expenses	981	1,042	4,039	1,009	1,006	993	1,031
Yield bonus	32	132	367	61	183	19	104
Pension and severance pay expenses, net of fund profits	175	138	695	261	141	146	147
Regulatory changes	-	-	73	8	8	57	-
Total salary expenses	1,188	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 2,139 million in the first half of 2014, an increase of 23% 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			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Depreciation	181	181	179	179	225	185
Maintenance of buildings and equipment	255	261	273	264	264	264
Other expenses and amortization of intangible assets	891	370	463	662	475	326
Total operating and other expenses	1,327	812	915	1,105	964	775

* Excluding salary

Operating expenses constitute 73.8% of total income, compared with 67.1% 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 2.53% of the total balance sheet, compared with 2.34% 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 half of 2014 amounted to NIS 1,714 million, compared with NIS 1,923 million in the corresponding period in 2013, a decrease of 10.9%. The profit before tax for the second quarter of 2014 amounted to NIS 656 million, compared with NIS 822 million in the corresponding period in 2013, a decrease of 20.2%.

The provision for tax on the profit of the Leumi Group in the first half of 2014 amounted to NIS 754 million, compared with NIS 747 million in the corresponding period last year. The rate of the provision in the first half of 2014 was some 44.0% of the pre-tax profit, compared with 38.8% in the corresponding period in 2013, an increase of some 5.2 percentage points. The increase in the tax rate derives from an increase in disallowed expenses in the period compared to the corresponding period last year.

Profit after taxes for the first half of 2014 amounted to NIS 960 million, compared with NIS 1,176 million in the corresponding period in 2013, a decrease of 18.4%. In the second quarter of 2014, profit after tax amounted NIS 287 million, compared with NIS 538 million in the corresponding period in 2012, a decrease of 46.7%.

The Group's share in profit after taxes of associate companies amounted to a loss of NIS 51 million in the first half of 2014, compared with a profit of NIS 111 million in the corresponding period in 2013. In the second quarter of 2014, the operating results of the Israel Corporation for the first quarter of 2014 were recorded. For further details on the change in accounting policy, see Note 1b – Significant Accounting Policies, below.

Net profit before attribution to holders of non-controlling interests in the first half of 2014 amounted to a profit of NIS 909 million, compared with a profit of NIS 1,065 million in the corresponding period in 2013, a decrease of 14.6%. In the second quarter of 2014, profit before attribution to non-controlling interests amounted to NIS 273 million, compared to NIS 484 million in the corresponding period in 2012, a decrease of 43.6%.

Net profit attributable to holders of non-controlling interests in the first half of 2014 amounted to a profit NIS 6 million, compared with a profit of NIS 21 million in the corresponding period in 2013.

Net profit attributable to shareholders in the banking corporation in the first half of 2014 amounted to NIS 915 million, compared to a profit of NIS 1,044 million in the corresponding period in 2013, a decrease of 12.4%.

Net profit attributable to the shareholders in the banking corporation for the second quarter of 2014 amounted to a profit of NIS 290 million, compared with a profit of NIS 474 million in the corresponding period in 2013, a decrease of 38.8%.

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

	2014			2013				
	First half	2nd quarter	1st quarter	4th quarter	3rd quarter	First half	2nd quarter	1st quarter
	NIS millions							
Net profit attributable to the shareholders of the banking corporation	6.9	4.3	9.7	5.4	8.9	8.4	7.6	9.4

Basic net profit per share attributable to the shareholders of the banking corporation was NIS 0.62 for the first half of 2014, compared with NIS 0.71 for the corresponding period in 2013.

The following table is the condensed statement of comprehensive income:

	For the three months ended			
	30 June	30 June	Change	
	2014	2013		
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation	290	474	(184)	(38.8)
Other comprehensive income (loss) before tax	57	(278)	335	+
Effect of tax attributable to other comprehensive income	(42)	77	(119)	-
Net of other comprehensive income (loss) attributable to noncontrolling interests	(1)	-	(1)	-
Total profit attributable shareholders in the banking corporation	306	273	33	12.1

	For the six months ended			
	30 June	30 June	Change	
	2014	2013		
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation	915	1,044	(129)	(12.4)
Other comprehensive income (loss) before tax	44	(528)	572	+
Effect of tax attributable to other comprehensive income	(75)	115	(190)	-
Net of other comprehensive income (loss) attributable to noncontrolling interests	-	(4)	4	-
Total profit attributable shareholders in the banking corporation	884	635	249	39.2

Structure and Development of Assets and Liabilities⁽¹⁾

Total assets of Leumi Group as at 30 June 2014 amounted to NIS 368.6 billion, compared with NIS 374.4 billion at the end of 2013, a decrease of 1.5%, and compared with 30 June 2013, an increase of 1.3%.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 74.7 billion, some 20.3% of total assets. During the first half of 2014, the shekel fell against the U.S. dollar by 1.0% and against the euro, by 1.8%. The changes in exchange rates in the first half of the year led to a decrease of 0.2% 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 1,198 billion, compared with NIS 1,165 billion at the end of 2013 (some US\$ 348 billion and US\$ 339 billion, respectively), as detailed below.

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

	30 June 2014	31 December 2013	Since December 2013	Since June 2013
	NIS millions		Change %	
Total assets	368,577	374,360	(1.5)	1.3
Cash and deposits with banks	49,902	44,351	12.5	16.7
Securities	49,713	63,735	(22.0)	(13.7)
Credit to the public, net	244,385	240,874	1.5	2.5
Buildings and equipment	3,625	3,638	(0.4)	(0.4)
Deposits of the public	279,861	286,003	(2.1)	1.6
Deposits from banks	5,201	4,310	20.7	22.5
Debentures, notes and subordinated notes	24,509	25,441	(3.7)	(11.2)

Deposits of the public amounted to NIS 279.9 billion as at 30 June 2014, compared with NIS 286.0 billion as at 31 December 2013, a decrease of 2.1%, and compared with 30 June 2013, an increase of 1.6%.

The appreciation of the shekel in relation to most foreign currencies in the first half of the year contributed to a decrease of 0.3% in total deposits of the public.

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

Segment	30 June 2014	31 December 2013	Change
	NIS millions		%
Households	114,341	118,634	(3.6)
Small businesses	22,061	22,830	(3.4)
Corporate banking	21,745	22,816	(4.7)
Commercial banking	56,363	51,878	8.6
Private banking	33,110	34,794	(4.8)
Financial management and other	32,241	35,051	(8.0)
Total	279,861	286,003	(2.1)

Debentures, capital notes and subordinated capital notes totaled NIS 24.5 billion on 30 June 2014, compared with NIS 25.4 billion as at 31 December 2013, a decrease of 3.5%, and compared with 30 June 2013, a decrease of 11.2%. In the first half of 2014, NIS 1,412 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 managed by Leumi Group:

	30 June 2014	31 December 2013	Change	
	NIS millions		NIS millions	%
Securities portfolios (1)	624,699	604,095	20,604	3.4
Assets in respect of which operating services are provided: (1)(2)				
Mutual funds	88,742	78,590	10,152	12.9
Provident and pension funds	58,666	61,909	(3,243)	(5.2)
Supplementary training funds	57,586	45,999	11,587	25.2

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

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

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

Net credit to the public totaled NIS 244.4 billion as at 30 June 2014, compared with NIS 240.9 billion at 31 December 2013, an increase of 1.5%, compared to 30 June 2013, an increase of 2.5%.

The appreciation of the shekel in relation to most foreign currencies in the first half of 2014 contributed in total to a decrease 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 30 June 2014, amounted to NIS 12,479 million, compared with NIS 12,807 million as at 31 December 2013, a decrease of 2.6%.

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

Economy Sectors	30 June 2014		31 December 2013		
	Overall credit risk to the public (3)	Percentage of total	Overall credit risk to the public	Percentage of total	Rate of change
	NIS millions	%	NIS millions	%	%
Agriculture	2,279	0.6	2,187	0.6	4.2
Industry	37,824	10.2	38,745	10.4	(2.4)
Construction and real estate (2)	78,764	21.3	78,346	20.9	0.5
Electricity and water	4,111	1.1	4,882	1.3	(15.8)
Trade	30,340	8.2	30,251	8.1	0.3
Hotels, accommodation and food	4,355	1.2	4,824	1.3	(9.7)
Transportation and storage	6,621	1.8	6,296	1.7	5.2
Communications and computer services	6,017	1.6	6,148	1.6	(2.1)
Financial services	38,695	10.4	46,645	12.4	(17.0)
Other business services	11,336	3.1	11,253	3.0	0.7
Public and community services	10,007	2.7	9,569	2.6	4.6
Private individuals - housing loans	74,505	20.1	71,985	19.2	3.5
Private persons – other	65,701	17.7	63,063	16.9	4.2
Total	370,555	100.0	374,194	100.0	(1.0)

(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 1,273 million and off-balance sheet credit risk amounting to NIS 1,967 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			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Households	104,987	102,212	100,243	98,272	95,289	92,469
Of which: housing loans	70,992	69,388	68,556	67,221	65,239	63,214
Small businesses	24,124	23,850	23,299	23,131	22,593	22,116
Corporate banking	58,684	58,922	60,646	62,940	63,704	66,961
Commercial banking	50,218	49,913	49,630	49,112	49,627	48,636
Private banking	5,927	6,069	6,455	6,840	6,720	7,361
Financial management, capital markets and others	445	307	601	597	550	1,071
Total	244,385	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:

		30 June 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	81.0	6.4	21.1
80	600	15.9	21.1	11.1
600	1,200	2.1	13.2	3.0
1,200	2,000	0.5	5.8	2.0
2,000	8,000	0.4	9.1	4.9
8,000	20,000	0.1	6.9	4.9
20,000	40,000	0.039	6.6	5.7
40,000	200,000	0.033	14.7	18.0
200,000	800,000	0.01	11.1	22.1
Above 800,000		0.00	5.1	7.2
Total		100	100	100

		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	100	100

* On 30 June 2014 - 146 borrowers and on 31 December 2013 - 149 borrowers.

** On 30 June 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:

30 June 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	11	-	5,505	-	5,360	-
1,200	1,600	4	-	5,306	-	451	-
1,600	2,000	1	-	2	-	1,765	-
2,000	2,400	1	-	2,076	-	37	-
2,400	2,800	-	-	-	-	-	-
2,800	3,200	-	-	-	-	-	-
3,200	3,423	-	-	-	-	-	-
Total		17	-	12,889	-	7,613	-

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:

	30 June 2014		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
	In NIS millions		
Industry	4	1,749	3,363
Construction and real estate	4	1,867	2,014
Public and community services	1	706	200
Communications and computer services	1	2,076	37
Financial services	6	5,380	1,996
Electricity and water	1	1,111	3
Trade	-	-	-
Total	17	12,889	7,613

	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 30 June 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. The total indebtedness of groups of borrowers whose indebtedness exceeds 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 12.7% of the Bank's capital at 30 June 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:

	30 June 2014			31 December 2013		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	In NIS millions					
Impaired debts	3,958	139	4,097	4,267	213	4,480
Substandard debts	1,842	622	2,464	1,689	185	1,874
Special mention debts	2,213	424	2,637	2,691	756	3,447
Total	8,013	1,185	9,198	8,647	1,154	9,801

Problem credit risk:

	30 June 2014	31 December 2013
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	10,092	10,858
Retail problem credit risk	1,309	1,331
Total	11,401	12,189
Allowance for credit losses	2,203	2,388
Problem credit after allowance for credit losses	9,198	9,801

Credit to Governments amounted to NIS 483 million as at 30 June 2014, compared with NIS 558 million on 31 December 2013, a decrease of 13.4%, and an increase of 1.0% compared with 30 June 2013.

Securities

The Group's investments in securities amounted to NIS 49.7 billion on 30 June 2014, compared with NIS 63.7 billion, a decrease of 22.0%, compared with 31 December 2013, and a decrease of 13.7% compared with 30 June 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:

30 June 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	35,854	475	(123)	36,206	36,206
For trading	9,830	127*	(6)*	9,951	9,951
	45,684	602	(129)	46,157	46,157
Shares and funds					
Available-for-sale	3,031	61	(41)	3,051	3,051
For trading	433	72*	.*	505	505
	3,464	133	(41)	3,556	3,556
Total securities	49,148	735	(170)	49,713	49,713

* 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 30 June 2014, some 79% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 21% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 7.2% of the value of the securities represents investments in shares and funds of companies that are not presented on equity basis, but according to cost, or to the market value of the shares traded on the stock exchange.

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

	For the period ended	
	30 June 2014	30 June 2013
	NIS millions	
Debentures redeemed and/or sold (available-for-sale)	26,123	27,042
Purchases of available-for-sale debentures	11,483	29,858
Net profit from investments in debentures:		
Interest income	395	481
Net profit from sale and from impairment of available-for-sale debentures	117	123
Realized and/or unrealized gain from adjustments to fair value of debentures for trading	-	(77)

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

	30 June 2014			31 December 2013		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions					
Israeli currency:						
Unlinked	24,856	-	304	34,086	-	237
Linked to CPI	1,492	-	1,120	2,141	-	1,269
Foreign currency including foreign currency-linked	1,563	2,271	14,553	1,610	4,871	15,602
Total debentures	27,911	2,271	15,977	37,837	4,871	* 17,108

* Of which, subordinated notes of NIS 757 million as at 30 June 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:

	30 June 2014	31 December 2013
Securities traded on an active market	32,580	45,164
Securities based on prices determined by external models	13,927	15,339
Securities based on quotation from counterparty or at cost	3,206	3,232
Total	49,713	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):

	30 June 2014		31 December 2013	
	Issued in Israel	Issued abroad	Issued in Israel	Issued abroad
Sector of economy	NIS million			
Agriculture	-	4	-	4
Industry	117	949	60	766
Construction and real estate	102	174	50	171
Electricity and water	586	233	590	234
Trade	125	4	186	4
Hotels, accommodation and food	-	10	-	-
Transportation and storage	9	109	9	132
Communications and computer services	50	241	58	198
Financial services *	500	8,888	431	9,495
Business and other services	21	227	66	209
Public and community services	27	103	29	115
Total	1,537	10,942	1,479	11,328

* Including asset-backed debentures

Available-for-sale portfolio

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

	30 June 2014		31 December 2013		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	16,250	19,956	19,953	30,080	(3,703)	(10,124)
Shares and funds	2,198	853	1,741	1,087	457	(234)
Total	18,448	20,809	21,694	31,167	(3,246)	10,358

- a. In the first half of 2014, there was positive movement in capital reserve of available-for-sale securities amounting to NIS 55 million (before the effect of tax). The positive movement was attributable to an increase in value of NIS 330 million (before the effect of tax) which was offset by profit from securities which were realized and transferred to profit and loss amounting to NIS 275 million. This compared with a negative movement of NIS 452 million in 2013 which was attributable to a negative adjustment of NIS 12 million and a profit amounting to NIS 440 million from securities which were realized and transferred to profit and loss.
- b. Net profits from the sale of debentures amounting to NIS 117 million were recorded to profit and loss statement, compared with profits of NIS 123 million in the corresponding period last year.

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

	For the period ended		
	30 June 2014	30 June 2013	31 December 2013
NIS millions			
Profits in respect of available-for-sale securities which were recorded to profit and loss	616	819	1,561
Adjustments in respect of available-for sale securities carried to equity	55	(452)	(518)
Total change in respect of available-for-sale securities	671	367	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):

	30 June 2014	30 June 2013	31 December 2013	Quarterly movement in 2014	
				1st quarter	2nd quarter
				NIS millions	
Shares	19	182	83	(82)	(76)
Israel government debentures	156	117	145	6	(1)
Foreign government debentures	7	(5)	2	2	(5)
Other debentures	92	(26)	(25)	73	(145)
Other debt instruments	4	22	18	(7)	2
Total	278	290	223	(8)	(225)
Related tax	(105)	(88)	(44)	(38)	73
Net total	173	202	179	(46)	(152)

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 30 June 2014, amounted to a positive amount of NIS 173 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 30 June 2014:

		Duration of impairment since commencement of the decline*				
		Up to 6 months	6-9 months	9-12 months	More than 12 months	Total amount
		NIS millions				
Rate of decline						
Up to 10%	Shares	1	-	-	9	10
	Asset-backed debentures	6	1	6	76	89
	Other debentures	5	-	-	20	25
	Total	12	1	6	105	124
Above 10%	Shares	-	-	-	31	31
	Asset-backed debentures	-	-	-	5	5
	Other debentures	-	-	1	3	4
	Total	-	-	1	39	40
Total	Shares	1	-	-	40	41
	Asset-backed debentures	6	1	6	81	94
	Other debentures	5	-	1	23	29
Total		12	1	7	144	164

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

Trading Portfolio

The following table shows the composition of the trading portfolio:

	30 June 2014		31 December 2013		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	1,966	7,985	1,951	7,832	15	153
Shares and funds	432	73	959	132	(527)	(59)
Total	2,398	8,058	2,910	7,964	(512)	94

In respect of debentures for trading, realized and unrealized losses amounting to NIS 230 million were recorded in the profit and loss statement in the first half of 2014, compared with losses of NIS 77 million in the corresponding period in 2013. In respect of shares and funds, realized and unrealized losses were recorded amounting to NIS 13 million, compared with profits amounting to NIS 29 million in the corresponding period in 2013.

Investments in securities issued abroad

The Group's securities portfolio includes some NIS 21 billion (some US\$ 6.1 billion) of securities issued abroad. Some 88% of the portfolio is invested in debt instruments, all of which (but for some 1.3%) are investment grade securities, of which some 87% are rated 'A-' and above. Some 12% of the portfolio is invested in shares and funds.

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

	30 June 2014		31 December 2013	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
	NIS millions			
Balance sheet value				
Government debentures	3,104	750	5,325	1,036
Debentures of banks and financial institutions	4,180	153	5,280	116
Asset-backed debentures	6,647	515	7,346	279
Other debentures	2,319	548	2,002	520
Shares and funds	2,198	432	1,741	959
Total	18,448	2,398	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 30 June 2014, amounted to NIS 174 million (some NIS 108 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 30 June 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 6.6 billion (some US\$ 1.9 billion) is classified in the available-for-sale portfolio, and the balance in the trading portfolio.

The portfolio of available-for-sale investments in foreign asset-backed securities as at 30 June 2014 includes investments in mortgage-backed securities in the total amount of some NIS 4.8 billion. 93% of the mortgage-backed securities in the available-for-sale portfolio are issued directly by United States federal agencies (FNMA, FHLMC, GNMA).

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

	30 June 2014			
	Amortized	Unrealized	Unrealized	Balance sheet
	cost	profits	losses	value (fair value)
	NIS millions			
MBS - mortgage-backed securities	4,891	8	(84)	4,815
ABS-asset-backed securities (other than mortgage-backed):	1,821	21	(10)	1,832
Of which: CLO	1,732	21	(10)	1,743
Other	89	-	-	89
Total	6,712	29	(94)	6,647

	31 December 2013			
	Amortized	Unrealized	Unrealized	Balance sheet
	cost	profits	losses	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 30 June 2014, the cumulative net decrease in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to some NIS 76 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 652 million.

The forecast term to maturity for each mortgage-backed securities portfolio is, on average, some 4.6 years. In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car purchase credit and other types of credit), amounting to some NIS 1.8 billion, of which CLO-type debentures account for some NIS 1.7 billion. The projected term to maturity of the portfolio of securities backed by assets other than mortgages is some 3.4 years on average.

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

The Group's securities portfolio as at 30 June 2014 includes some NIS 13.7 billion (some US\$ 4 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 11.8 billion (US\$ 3.4 billion) are classified in the available-for-sale portfolio, and some NIS 1.9 billion in the securities for trading portfolio. Of these securities, 97% are investment grade.

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

As of 30 June 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 239 million (NIS 149 million after tax). In the first half of 2014, there was an increase in value amounting to NIS 122 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 91% of the securities in the trading portfolio are investment grade securities. The value of the trading portfolio which is non-asset backed as at 30 June 2014 amounted to some NIS 1.9 billion (US\$ 0.5 billion). The difference between the fair value and the adjusted cost, if any, is carried to the profit and loss statement.

3. Investments in debentures issued in Israel

Investments in debentures issued in Israel at 30 June 2014 amounted to NIS 27.9 billion, of which NIS 26.3 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 51.4% of the investments in corporate debentures amounting to NIS 0.9 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 0.9 billion, the positive capital reserve amounts to NIS 50 million, while the negative reserve amounts to NIS 2 million.

4. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 3,556 million as at 30 June 2014, of which some NIS 2,112 million was in quoted shares and some NIS 1,445 million in unquoted shares. Out of the total investment, NIS 3,051 million is classified as available-for-sale and NIS 505 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
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013	
	%		NIS millions				
Otzar Hityashvuth Hayehudim B.M.	8.62	8.62	60	61	5	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	18.90	18.90	256	252	23	23	not listed
Tower Semiconductor capital notes	-	-	19	30	2	3	not listed
Tower Semiconductor(6)	-	-	7	20	1	2	listed
CLS Bank	-	-	28	28	3	3	not listed
Funds	-	-	2,294	1,807	206	163	of which 762 not listed
Apax	-	-	80	83	7	7	not listed
Other (7)	-	-	812	1,401	73	126	of which 299 not listed
Total			3,556	3,919	320	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.
- (7) For details regarding the issue to the public of Mobileye, see Note 13 to the financial statements, Events after the Balance Sheet Date

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

	Balance sheet amount	
	30 June 2014	31 December 2013
Shares and funds on the basis of quoted prices on an active market	2,111	2,556
Funds according to quote by counterparty on cost basis	842	757
Unquoted shares on cost basis	603	606
Total	3,556	3,919

Other assets and debit balances in respect of derivative instruments

As of 30 June 2014, other assets (including intangible assets and goodwill) and debit balances in respect of derivative instruments amounted to NIS 17.2 billion, compared with NIS 18.2 billion at the end of 2013, a decrease of 5.5%.

Other liabilities and credit balances in respect of derivative instruments

As of 30 June 2014, other liabilities and credit balances in respect of derivative instruments amounted to NIS 30.3 billion, compared with NIS 30.8 billion at the end of 2013, a decrease of 1.6%.

Operating Segments in the Group

The Group operates in various operating segments through the Bank and its subsidiaries, in all fields of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various fields, including 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		
	30 June 2014	31 December 2013	Change	30 June 2014	31 December 2013	Change	30 June 2014	31 December 2013	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households	104,987	100,243	4.7	114,341	118,634	(3.6)	105,749	100,913	4.8
Small businesses	24,124	23,299	3.5	22,061	22,830	(3.4)	24,151	23,326	3.5
Corporate banking	58,684	60,646	(3.2)	21,745	22,816	(4.7)	60,029	62,482	(3.9)
Commercial banking	50,218	49,630	1.2	56,363	51,878	8.6	51,822	53,931	(3.9)
Private banking	5,927	6,455	(8.2)	33,110	34,794	(4.8)	10,161	11,527	(11.9)
Financial management and other	445	601	(26.0)	32,241	35,051	(8.0)	116,665	122,181	(4.5)
Total	244,385	240,874	1.5	279,861	286,003	(2.1)	368,577	374,360	(1.5)

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

	Guarantees and documentary credit			Securities portfolios, including mutual funds		
	30 June 2014	31 December 2013	Change	30 June 2014	31 December 2013	Change
	NIS millions		%	NIS millions		%
Households	392	396	(1.0)	178,569	165,515	7.9
Small businesses	1,469	1,456	0.9	16,959	14,736	15.1
Corporate banking	28,801	28,038	2.7	64,719	64,833	(0.2)
Commercial banking	6,629	6,574	0.8	61,790	62,196	(0.7)
Private banking	348	399	(12.8)	98,157	93,139	5.4
Financial management and other	1,096	774	41.6	293,246	282,265	3.9
Total	38,735	37,637	2.9	713,440	682,684	4.5

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

Segment	For the three months ended			For the six months ended		
	30 June 2014	30 June 2013	Change	30 June 2014	30 June 2013	Change
	NIS millions		%	NIS millions		%
Households	67	31	+	118	70	68.6
Small businesses	84	64	31.3	171	126	35.7
Corporate banking	276	276	-	542	533	1.7
Commercial banking	150	50	+	305	165	84.8
Private banking	(550)	29	-	(548)	59	-
Financial management:						
Capital markets	156	(1)	+	187	11	+
Non- bank investments	(11)	32	-	44	138	(68.1)
Other	118	(7)	+	96	(58)	+
Total	290	474	(38.8)	915	1,044	(12.4)

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			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Households	67	51	23	16	31	39
Small businesses	84	87	83	79	64	62
Corporate banking	276	266	177	255	276	257
Commercial banking	150	155	108	139	50	115
Private banking	(550)	2	19	(93)	29	30
Financial management:						
Capital markets	156	31	88	20	(1)	12
Non- bank investments	(11)	55	(151)	122	32	106
Other	118	(22)	1	17	(7)	(51)
Total	290	625	348	555	474	570

Return on equity according to operating segments

Equity is allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, including the allocation of capital in respect of Pillar 2 equity according to the Bank's internal models.

The profit of operating segments was adjusted in respect of the cost of capital allocated to each segment.

The return on capital according to the various activity segments was calculated as the ratio of the adjusted profit of the segment to the capital allocated to the segment.

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 30 June 2014	As at 30 June 2013	As at 31 December 2013
Segment	%	%	%
Households	3.3	2.5	1.9
Small businesses	17.5	15.9	17.2
Corporate banking	14.1	13.0	11.8
Commercial banking	12.7	7.4	9.0
Private banking	(83.1)	11.3	(1.6)
Financial management	14.5	8.9	5.6
Other	31.5	(21.5)	(8.1)
Total for net profit	6.9	8.4	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 30 June 2014							
NIS millions							
Net interest income:							
From external sources	144	59	1	669	(1)	2	874
Intersegmental	280	(7)	-	(493)	4	(1)	(217)
Non-interest income:							
From external sources	131	139	117	20	1	-	408
Intersegmental	-	42	-	-	-	-	42
Total income	555	233	118	196	4	1	1,107
Expenses in respect of credit losses	68	5	-	10	-	-	83
Operating and other expenses:							
To external sources	607	157	94	54	3	2	917
Intersegmental	-	-	-	-	-	-	-
Profit (loss) before taxes	(120)	71	24	132	1	(1)	107
Provision for (benefit from) taxes on profit	(45)	23	8	49	-	-	35
Profit (loss) after taxes	(75)	48	16	83	1	(1)	72
Group share in profits of companies included on equity basis after effect of taxes	-	2	-	-	-	-	2
Net profit attributable to non-controlling interests	-	(7)	-	-	-	-	(7)
Net profit (loss)	(75)	43	16	83	1	(1)	67

	Overseas activity						
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
For the three months ended 30 June 2013							
NIS millions							
Net interest income:							
From external sources	(42)	58	1	744	(3)	2	760
Intersegmental	487	(9)	-	(578)	4	-	(96)
Non-interest income:							
From external sources	130	127	105	30	1	-	393
Intersegmental	1	41	-	-	-	-	42
Total income	576	217	106	196	2	2	1,099
Expenses (income) in respect of credit losses	25	3	-	12	2	(1)	41
Operating and other expenses:							
To external sources	669	170	97	66	3	2	1,007
Intersegmental	3	(3)	-	-	-	-	-
Profit (loss) before taxes	(121)	47	9	118	(3)	1	51
Provision for (benefit from) taxes on profit	(42)	13	3	41	-	-	15
Profit (loss) after taxes	(79)	34	6	77	(3)	1	36
Group share in profits of companies included on equity basis after effect of taxes	-	1	-	-	-	-	1
Net profit attributable to non-controlling interests	-	(6)	-	-	-	-	(6)
Net profit (loss)	(79)	29	6	77	(3)	1	31

Households (contd.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
For the six months ended 30 June 2014							
NIS millions							
Net interest income:							
From external sources	425	120	3	920	(3)	5	1,470
Intersegmental	423	(14)	(1)	(576)	8	(1)	(161)
Non-interest income:							
From external sources	265	272	234	41	3	-	815
Intersegmental	3	84	-	-	-	-	87
Total income	1,116	462	236	385	8	4	2,211
Expenses (income) in respect of credit losses	102	9	-	11	-	(1)	121
Operating and other expenses:							
To external sources	1,266	312	200	110	6	4	1,898
Intersegmental	1	(1)	-	-	-	-	-
Profit (loss) before taxes	(253)	142	36	264	2	1	192
Provision for taxes (benefit) on profit	(95)	46	13	98	-	-	62
Profit (loss) after taxes	(158)	96	23	166	2	1	130
Group share in profits of companies included on equity basis after effect of taxes	-	3	-	-	-	-	3
Net profit attributable to non-controlling interests	-	(15)	-	-	-	-	(15)
Net profit (loss)	(158)	84	23	166	2	1	118
Return on equity							3.3%
Average balance of assets	23,521	9,759	174	69,485	47	213	103,199
of which: investments in companies included on equity basis	-	2	-	-	-	-	2
Average balance of credit to the public	23,074	9,540	174	69,433	47	213	102,481
Average balance of liabilities	115,570	1,284	-	287	904	8	118,053
Average balance of deposits of the public	115,389	42	-	-	903	7	116,341
Average balance of risk assets	26,177	9,495	170	37,502	271	75	73,690
Average balance of mutual funds and supplementary training funds	-	-	77,073	-	-	-	77,073
Average balance of securities	61,753	-	47,812	-	185	-	109,750
Average balance of other assets under management	3,774	-	-	-	-	-	3,774
Balance of credit to the public	23,991	9,779	181	70,779	44	213	104,987
Balance of deposits of the public	113,387	41	-	-	904	9	114,341

Households (contd.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
For the six months ended 30 June 2013							
NIS millions							
Net interest income:							
From external sources	(39)	120	3	1,263	(6)	5	1,346
Intersegmental	940	(19)	(1)	(944)	8	-	(16)
Non-interest income:							
From external sources	282	245	214	56	3	-	800
Intersegmental	-	82	-	-	-	-	82
Total income	1,183	428	216	375	5	5	2,212
Expenses (income) in respect of credit losses	63	8	-	56	1	(1)	127
Operating and other expenses:							
To external sources	1,314	337	185	124	7	3	1,970
Intersegmental	4	(4)	-	-	-	-	-
Profit (loss) before taxes	(198)	87	31	195	(3)	3	115
Provision for taxes (benefit) on profit	(72)	26	11	69	-	-	34
Profit (loss) after taxes	(126)	61	20	126	(3)	3	81
Group share in profits of companies included on equity basis after effect of taxes	-	2	-	-	-	-	2
Net profit attributable to non-controlling interests	-	(13)	-	-	-	-	(13)
Net profit (loss)	(126)	50	20	126	(3)	3	70
Return on equity							2.5%
Average balance of assets	20,843	8,733	141	63,464	56	204	93,441
Of which investments in companies included on equity basis	-	2	-	-	-	-	2
Average balance of credit to the public	20,543	8,526	140	63,280	56	204	92,749
Average balance of liabilities	123,964	1,067	-	272	916	8	126,227
Average balance of deposits of the public	123,775	38	-	-	915	8	124,736
Average balance of risk assets	23,007	8,605	138	34,252	272	71	66,345
Average balance of mutual funds and supplementary training funds	-	-	61,816	-	-	-	61,816
Average balance of securities	48,587	-	48,152	-	175	-	96,914
Average balance of other assets under management	4,532	-	-	-	-	-	4,532
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 4.7 billion, or 4.7% compared with the end of 2013. Housing loans increased by 3.6%, and credit, after cancelling out the effect of housing loans, increased by 7.3%. Deposits of the public fell by some NIS 4.3 billion.

Main Changes in Net Profit

In the first six months of 2014, net profit in the households segment amounted to NIS 118 million, compared with NIS 70 million in the corresponding period last year, an increase of NIS 48 million or 68.6%. The increase in profit derives mainly from a decrease in expenses in operating and other expenses amounting to NIS 72 million.

The return on equity of the net profit in the segment was 3.3%.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group to the end of June 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 19.8 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 half of 2014	First half of 2013	Rate of change
	NIS millions		%
From Bank funds	7,072	6,444	9.7
From Ministry of Finance funds:			
Loans	18	20	(10)
Standing loans	9	9	-
Total new loans	7,099	6,473	9.67
Refinanced loans	1,703	1,045	62.9
Total loans extended	8,802	7,518	17.08

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
June 2014	70,629	3.6 *

* Rate of increase in the first half 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 half 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
June 2014	33,874	48.0	35,102	49.7	1,653	2.3	70,629

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 2012	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
June 2014	5,491	11,063	28,383	24,039	1,653	70,629

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
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
	Percentage of loans extended						
	%						
Fixed – linked	25.2	22.0	19.9	10.5	13.3	10.9	13.3
Variable – every 5 years or more – linked	18.1	17.6	21.8	28.9	31.1	31.3	40.4
Variable – up to 5 years – linked	1.9	2.1	2.6	2.2	2.2	2.5	4.5
Fixed-unlinked	18.7	20.7	17.1	14.4	13.6	14.3	8.4
Variable – every 5 years or more – unlinked	6.3	7.6	9.0	11.5	9.0	9.3	4.5
Variable – up to 5 years – unlinked	27.9	28.6	28.4	30.8	28.9	29.1	27.5
Variable – foreign currency	1.9	1.4	1.2	1.7	1.9	2.6	1.4

The percentage of new credit extended by the Bank in variable interest housing loans during the first half of 2014 was 56%, compared with an average of 72% 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 housing credit extended in variable interest loans during the first half of 2014, after canceling the effect of loans at variable interest varying each period of 5 years and more, which a directive from the Supervisor of 3 May 2011 excludes from the definition of variable interest loans, was 32%, compared with 33% in 2013.

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

	Balance of debt NIS millions	Amount of credit in arrears	Percentage of problem debt %
December 2012	60,738	829	1.4
December 2013	68,627	810	1.2
June 2014	71,112	818	1.2

The allowance for credit losses as at 30 June 2014, which includes the group allowance for housing loans (hereinafter, "the overall allowance") is NIS 483 million, representing 0.68% of the housing balance, compared with an allowance of NIS 475 million as at 31 December 2013, representing 0.69% of the housing credit balance.

Data relating to new housing credit:

During the first half of 2014, the mortgage department extended new housing loans amounting to NIS 6.9 billion from the Bank's funds.

Development of the rate of financing, 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	
	2nd quarter	1st quarter	Annual average	4 th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing %								
Between 60% and 70%	19.6	16.6	18.3	17.0	16.5	19.2	20.9	22.6
Between 70% and 80%	13.9	14.4	16.3	15.4	16.7	16.9	16.0	12.9
Above 80%	0.3	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 30 June 2014 was 48.8%.

Development of new credit in which the repayment ratio is less than 2.5¹:

The rate of credit extended in the first half 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 0.56% 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.

¹ Till now, the rate of performance in the repayment ratio is lower than 2 for income-earners earning NIS 10,000 and less has been reported, in light of the Bank of Israel directive dated 29 August, 2013 "Restriction on Housing Loans" which restricts the grant of housing loans with a repayment ratio lower than 2.

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

The rate of new credit for housing loans in the first half of 2014, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at an average of 28.9% of the total new loans extended, compared to an average rate of 30.2% in 2013, 31% in 2012 and 2011.

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 declines in value..

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 loan extended by the Bank in the first half of 2014 was NIS 581 thousand, compared with NIS 558 thousand in 2013 and 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 30 June 2014								
NIS millions								
Net interest income:								
From external sources	200	5	-	-	80	14	3	302
Intersegmental	(21)	(1)	-	(1)	(13)	(5)	(1)	(42)
Non-interest income:								
From external sources	72	31	8	-	17	5	1	134
Intersegmental	(1)	(11)	-	-	-	-	-	(12)
Total income	250	24	8	(1)	84	14	3	382
Expenses in respect of credit losses	18	-	-	-	3	10	-	31
Operating and other expenses:								
To external sources	155	14	4	-	28	9	2	212
Intersegmental	-	1	-	-	-	-	-	1
Profit (loss) before taxes	77	9	4	(1)	53	(5)	1	138
Provision for (benefit from) taxes on profit	29	3	2	-	20	(1)	-	53
Profit (loss) after taxes	48	6	2	(1)	33	(4)	1	85
Profit attributable to non-controlling interests	(1)	-	-	-	-	-	-	(1)
Net profit (loss)	47	6	2	(1)	33	(4)	1	84

	Overseas activity							
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Real estate	Total
For the three months ended 30 June 2013								
NIS millions								
Net interest income:								
From external sources	191	7	-	1	75	10	3	287
Intersegmental	(26)	(2)	-	(1)	(20)	(4)	(1)	(54)
Non-interest income:								
From external sources	87	28	7	-	18	2	1	143
Intersegmental	-	(11)	-	-	-	-	-	(11)
Total income	252	22	7	-	73	8	3	365
Expenses (income) in respect of credit losses	-	(1)	-	-	2	15	-	16
Operating and other expenses:								
To external sources	179	15	4	-	34	8	1	241
Intersegmental	(2)	1	-	-	-	-	-	(1)
Profit (loss) before taxes	75	7	3	-	37	(15)	2	109
Provision for taxes on the profit	28	1	1	-	13	1	-	44
Profit (loss) after taxes	47	6	2	-	24	(16)	2	65
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	47	5	2	-	24	(16)	2	64

Small Businesses (contd.)

	Overseas activity							
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Real estate	Total
For the six months ended 30 June 2014								
NIS millions								
Net interest income:								
From external sources	384	10	-	1	155	28	6	584
Intersegmental	(29)	(1)	-	(1)	(25)	(9)	(2)	(67)
Non-interest income:								
From external sources	150	59	15	-	32	10	1	267
Intersegmental	-	(21)	-	-	-	-	-	(21)
Total income	505	47	15	-	162	29	5	763
Expenses in respect of credit losses	37	-	-	-	6	7	-	50
Operating and other expenses:								
To external sources	323	27	8	-	58	18	3	437
Intersegmental	1	2	-	-	-	-	-	3
Profit before taxes	144	18	7	-	98	4	2	273
Provision for taxes on profit	55	5	3	-	37	-	-	100
Profit after taxes	89	13	4	-	61	4	2	173
Net profit attributable to non-controlling interests	(1)	(1)	-	-	-	-	-	(2)
Net profit	88	12	4	-	61	4	2	171
Return on equity								17.5%
Average balance of assets	14,569	926	22	78	6,908	997	283	23,783
Average balance of credit to the public	14,558	912	22	78	6,907	997	283	23,757
Average balance of liabilities	16,990	1,563	-	-	4,570	710	137	23,970
Average balance of deposits of the public	16,961	-	-	-	4,453	709	137	22,260
Average balance of risk assets	11,841	759	25	44	6,834	1,049	283	20,835
Average balance of mutual funds and supplementary training funds	-	-	3,937	-	-	-	-	3,937
Average balance of securities	3,200	-	8,793	-	-	9	-	12,002
Average balance of other assets under management	189	-	-	-	-	-	-	189
Balance of credit to the public	14,735	922	17	72	7,055	1,062	261	24,124
Balance of deposits of the public	16,483	-	-	-	4,736	725	117	22,061

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 six months ended 30 June 2013								
NIS millions								
Net interest income:								
From external sources	374	12	-	2	143	20	5	556
Intersegmental	(45)	(3)	-	(1)	(35)	(7)	(2)	(93)
Non-interest income:								
From external sources	169	57	13	-	37	6	1	283
Intersegmental	-	(21)	-	-	-	-	-	(21)
Total income	498	45	13	1	145	19	4	725
Expenses in respect of credit losses	29	(1)	-	-	14	16	-	58
Operating and other expenses:								
To external sources	345	29	7	-	64	15	2	462
Intersegmental	(2)	2	-	-	-	-	-	-
Profit (loss) before taxes	126	15	6	1	67	(12)	2	205
Provision for taxes on the profit	47	3	2	-	24	1	-	77
Profit (loss) after taxes	79	12	4	1	43	(13)	2	128
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	-	(2)
Net profit (loss)	79	10	4	1	43	(13)	2	126
Return on equity								15.9%
Average balance of assets	13,746	903	24	95	6,320	844	239	22,171
Average balance of credit to the public	13,738	889	24	95	6,319	844	239	22,148
Average balance of liabilities	15,885	1,518	-	-	3,717	599	78	21,797
Average balance of deposits of the public	15,854	-	-	-	3,618	599	78	20,149
Average balance of risk assets	11,260	724	26	65	6,263	938	239	19,515
Average balance of mutual funds and supplementary training funds	-	-	2,792	-	-	-	-	2,792
Average balance of securities	2,164	-	5,929	-	-	9	-	8,102
Average balance of other assets under management	224	-	-	-	-	-	-	224
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 0.8 billion, compared with the end of 2013, an increase of 3.5%. Public deposits fell by NIS 0.8 billion, a decrease of 3.4%.

Main Changes in the Net Profit

In the first half of 2014, net profit in the small businesses segment totaled NIS 171 million, compared with NIS 126 million in the corresponding period last year, an increase of 35.7%. This increase in profit derives mainly from an increase of NIS 38 million which is primarily attributable to an increase in activity in the segment. In addition, there was a fall in operating and other expenses, both direct and loaded on the Bank's activity in the segment in Israel, amounting to NIS 25 million.

The return on equity of the net profit in the segment was 17.5%.

3. Corporate Banking

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

					<u>Overseas activity</u>		
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
For the three months ended 30 June 2014							
NIS millions							
Net interest income:							
From external sources	327	5	1	217	(1)	1	550
Intersegmental	(145)	-	1	(93)	2	-	(235)
Non-interest income:							
From external sources	(24)	48	3	77	1	-	105
Intersegmental	85	(23)	-	11	-	-	73
Total income	243	30	5	212	2	1	493
Expenses in respect of credit losses	(29)	-	-	(98)	-	-	(127)
Operating and other expenses:							
To external sources	90	20	2	60	2	-	174
Intersegmental	1	-	-	-	-	-	1
Profit before taxes	181	10	3	250	-	1	445
Provision for taxes on profit	68	3	1	94	1	-	167
Profit (loss) after taxes	113	7	2	156	(1)	1	278
Profit attributable to non-controlling interests	-	(2)	-	-	-	-	(2)
Net profit (loss)	113	5	2	156	(1)	1	276

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

Corporate Banking (contd.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the six months ended 30 June 2014						
	NIS millions						
Net interest income:							
From external sources	602	10	1	363	-	1	977
Intersegmental	(228)	(1)	1	(124)	4	1	(347)
Non-interest income:							
From external sources	23	94	6	140	2	-	265
Intersegmental	118	(46)	-	25	-	-	97
Total income	515	57	8	404	6	2	992
Expenses in respect of credit losses	(63)	-	-	(151)	-	-	(214)
Operating and other expenses:							
To external sources	197	39	5	86	4	1	332
Intersegmental	1	-	-	-	-	-	1
Profit before taxes	380	18	3	469	2	1	873
Provision for taxes on profit	144	5	1	177	1	-	328
Profit after taxes	236	13	2	292	1	1	545
Net profit attributable to non-controlling interests	-	(3)	-	-	-	-	(3)
Net profit	236	10	2	292	1	1	542
Return on equity							14.1%
Average balance of assets	39,267	349	111	21,171	111	46	61,055
Average balance of credit to the public	37,698	321	111	21,131	111	46	59,418
Average balance of liabilities	17,753	2,796	-	5,462	543	164	26,718
Average balance of deposits of the public	16,317	-	-	4,856	543	164	21,880
Average balance of risk assets	61,481	387	166	21,056	171	46	83,307
Average balance of mutual funds and supplementary training funds	-	-	2,093	-	-	-	2,093
Average balance of securities	2,093	-	61,025	-	-	-	63,118
Average balance of other assets under management	203	-	-	-	-	-	203
Balance of credit to the public	36,859	339	-	21,372	67	47	58,684
Balance of deposits of the public	16,445	-	-	4,779	356	165	21,745

Corporate Banking (contd.)

	Overseas activity						
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the six months ended 30 June 2013						
	NIS millions						
Net interest income:							
From external sources	795	12	-	488	-	1	1,296
Intersegmental	(353)	(3)	-	(247)	11	1	(591)
Non-interest income:							
From external sources	101	96	7	118	3	1	326
Intersegmental	37	(46)	1	13	-	-	5
Total income	580	59	8	372	14	3	1,036
Expenses in respect of credit losses	(48)	(1)	-	(79)	-	-	(128)
Operating and other expenses:							
To external sources	195	38	3	88	8	1	333
Intersegmental	1	-	-	-	-	-	1
Profit before taxes	432	22	5	363	6	2	830
Provision for taxes on profit	153	6	2	130	2	-	293
Profit after taxes	279	16	3	233	4	2	537
Net profit attributable to non-controlling interests	-	(4)	-	-	-	-	(4)
Net profit	279	12	3	233	4	2	533
Return on equity							13.0%
Average balance of assets	43,729	407	166	23,915	299	124	68,640
Average balance of credit to the public	42,162	382	166	23,840	298	124	66,972
Average balance of liabilities	18,188	2,776	-	5,456	1,222	163	27,805
Average balance of deposits of the public	16,564	-	-	4,903	1,222	163	22,852
Average balance of risk assets	68,694	404	166	24,336	438	124	94,162
Average balance of mutual funds and supplementary training funds	-	-	2,488	-	-	-	2,488
Average balance of securities	2,487	-	58,068	-	104	-	60,659
Average balance of other assets under management	205	-	-	-	-	-	205
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 2.0 billion compared with the end of 2013, a decrease of 3.2%. Total deposits of the public fell by NIS 1.1 billion, or 4.7%.

Main Changes in Net Profit

In the first six months of 2014, net profit in the corporate banking segment totaled NIS 542 million, compared with NIS 533 million during the corresponding period in 2013. The increase in profit derives mainly from an increase in credit losses income amounting to NIS 86 million which was partly offset by a decrease in total income amounting to NIS 44 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 30 June 2014								
NIS millions								
Net interest income:								
From external sources	166	2	1	86	130	-	33	418
Intersegmental	(5)	-	(1)	(28)	(22)	-	(10)	(66)
Non-interest income:								
From external sources	19	21	11	15	14	1	4	85
Intersegmental	58	(10)	-	-	-	-	-	48
Total income	238	13	11	73	122	1	27	485
Expenses in respect of credit losses	10	-	-	(6)	(4)	-	7	7
Operating and other expenses:								
To external sources	123	9	11	11	79	1	12	246
Intersegmental	1	-	-	-	-	-	-	1
Profit before taxes	104	4	-	68	47	-	8	231
Provision for taxes on profit	40	1	-	26	10	-	3	80
Profit after taxes	64	3	-	42	37	-	5	151
Profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit	64	2	-	42	37	-	5	150

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
For the three months ended 30 June 2013								
NIS millions								
Net interest income:								
From external sources	147	3	(3)	91	137	-	34	409
Intersegmental	4	-	4	(43)	(21)	-	(12)	(68)
Non-interest income:								
From external sources	77	21	12	15	15	2	2	144
Intersegmental	8	(9)	(2)	(1)	-	-	-	(4)
Total income	236	15	11	62	131	2	24	481
Expenses in respect of credit losses	(37)	-	-	2	55	-	93	111
Operating and other expenses:								
To external sources	139	8	9	14	84	2	9	265
Intersegmental	1	-	-	-	-	-	-	1
Profit (loss) before taxes	133	7	2	46	(8)	-	(78)	102
Provision for (benefit from) taxes on profit	50	1	-	16	1	1	(18)	51
Profit (loss) after taxes	83	6	2	30	(9)	(1)	(60)	51
Profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	83	5	2	30	(9)	(1)	(60)	50

Commercial Banking (contd.)

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
For the six months ended 30 June 2014								
NIS millions								
Net interest income:								
From external sources	316	4	-	156	258	-	69	803
Intersegmental	(1)	-	1	(41)	(40)	-	(22)	(103)
Non-interest income:								
From external sources	147	39	23	12	30	3	8	262
Intersegmental	16	(18)	-	15	-	-	-	13
Total income	478	25	24	142	248	3	55	975
Expenses in respect of credit losses	(38)	-	-	(10)	22	-	5	(21)
Operating and other expenses:								
To external sources	254	17	24	30	153	2	22	502
Intersegmental	1	-	-	-	-	-	-	1
Profit before taxes	261	8	-	122	73	1	28	493
Provision for taxes on profit	100	2	-	46	28	-	10	186
Profit after taxes	161	6	-	76	45	1	18	307
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	-	(2)
Net profit	161	4	-	76	45	1	18	305
Return on equity								12.7%
Average balance of assets	26,770	341	174	8,680	13,808	-	3,003	52,776
Average balance of credit to the public	24,160	331	174	8,663	13,639	-	2,953	49,920
Average balance of liabilities	41,324	1,114	17	2,777	10,640	-	203	56,075
Average balance of deposits of the public	40,728	-	17	2,697	10,456	-	194	54,092
Average balance of risk assets	28,775	245	192	8,534	10,349	-	3,003	51,098
Average balance of mutual funds and supplementary training funds	-	-	5,755	-	-	120	-	5,875
Average balance of securities	5,611	-	49,419	-	(124)	1,377	-	56,283
Average balance of other assets under management	517	-	-	-	-	-	-	517
Balance of credit to the public	24,850	338	137	8,947	13,156	-	2,790	50,218
Balance of deposits of the public	42,633	-	50	2,891	10,623	-	166	56,363

Commercial Banking (contd.)

	Overseas activity							
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
For the six months ended 30 June 2013								
NIS millions								
Net interest income:								
From external sources	279	5	-	173	280	-	64	801
Intersegmental	24	(1)	-	(72)	(42)	-	(23)	(114)
Non-interest income:								
From external sources	112	40	23	29	33	4	4	245
Intersegmental	51	(17)	(2)	(2)	-	-	-	30
Total income	466	27	21	128	271	4	45	962
Expenses in respect of credit losses	(45)	-	-	5	75	-	110	145
Operating and other expenses:								
To external sources	276	16	20	28	171	3	19	533
Intersegmental	1	-	-	-	-	-	-	1
Profit (loss) before taxes	234	11	1	95	25	1	(84)	283
Provision for (benefit from) taxes on profit	85	2	-	34	13	1	(19)	116
Profit (loss) after taxes	149	9	1	61	12	-	(65)	167
Group share in profits of companies included on equity basis after effect of tax	-	(2)	-	-	-	-	-	(2)
Net profit (loss)	149	7	1	61	12	-	(65)	165
Return on equity								7.4%
Average balance of assets	23,534	355	295	8,097	15,082	-	3,061	50,424
Average balance of credit to the public	22,807	345	294	8,073	14,873	-	2,997	49,389
Average balance of liabilities	36,157	1,084	-	2,484	11,064	-	271	51,060
Average balance of deposits of the public	35,589	-	-	2,402	10,870	-	262	49,123
Average balance of risk assets	27,473	286	231	8,155	14,385	-	3,061	53,591
Average balance of mutual funds and supplementary training funds	-	-	4,700	-	-	153	-	4,853
Average balance of securities	4,592	-	42,806	-	-	1,616	-	49,014
Average balance of other assets under management	675	-	-	-	-	-	-	675
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 0.6 billion, an increase of 1.2%, compared with the end of 2013, and total deposits of the public increased by NIS 4.5 billion, or 8.6%.

Main changes in net profit

In the first six months of 2014, net profit in the commercial banking segment totaled NIS 305 million, compared with NIS 165 million during the corresponding period in 2013, an increase of NIS 140 million, or 84.9%. The increase in profit is attributable to recording income in respect of credit losses in the first six months of 2014, compared with the recording of high expenses in respect of credit losses in the commercial units in the United States and the United Kingdom in the corresponding period last year.

The return on equity of the net profit in the segment was 12.7%.

5. Private Banking

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

	Overseas activity									
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
For the three months ended 30 June 2014										
NIS millions										
Net interest income:										
From external sources	(23)	-	(3)	1	3	12	-	9	-	(1)
Intersegmental	38	-	3	-	1	34	-	(6)	-	70
Non-interest income:										
From external sources	-	-	40	-	5	57	49	1	-	152
Intersegmental	8	-	-	-	-	4	-	-	-	12
Total income	23	-	40	1	9	107	49	4	-	233
Expenses in respect of credit losses	-	-	-	-	-	-	-	-	-	-
Operating and other expenses:										
To external sources	41	1	17	-	3	688	50	3	1	804
Intersegmental	1	-	-	-	-	(1)	1	-	-	1
Profit (loss) before taxes	(19)	(1)	23	1	6	(580)	(2)	1	(1)	(572)
Provision for (benefit from) taxes on profit	(8)	-	8	-	3	3	(2)	1	-	5
Profit (loss) after taxes	(11)	(1)	15	1	3	(583)	-	-	(1)	(577)
Net profit (loss) attributable to non-controlling interests	-	-	-	-	-	27	-	-	-	27
Net profit (loss)	(11)	(1)	15	1	3	(556)	-	-	(1)	(550)

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

Private Banking (contd.)

	Overseas activity									
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
	For the six months ended 30 June 2014									
	NIS millions									
Net interest income:										
From external sources	(35)	-	(3)	1	6	24	-	19	-	12
Intersegmental	67	-	3	-	1	72	-	(12)	1	132
Non-interest income:										
From external sources	9	-	83	-	9	84	102	2	-	289
Intersegmental	9	-	-	-	2	(1)	-	-	-	10
Total income	50	-	83	1	18	179	102	9	1	443
Expenses in respect of credit losses	-	-	-	-	(1)	-	-	-	-	(1)
Operating and other expenses:										
To external sources	80	1	37	-	7	760	109	6	1	1,001
Intersegmental	1	-	-	-	-	-	1	-	-	2
Profit (loss) before taxes	(31)	(1)	46	1	12	(581)	(8)	3	-	(559)
Provision for (benefit from) taxes on profit	(12)	-	17	-	5	6	(1)	1	-	16
Profit (loss) after taxes	(19)	(1)	29	1	7	(587)	(7)	2	-	(575)
Net profit attributable to non-controlling interests	-	-	-	-	-	27	-	-	-	27
Net profit (loss)	(19)	(1)	29	1	7	(560)	(7)	2	-	(548)
Return on equity										(83.1%)
Average balance of assets	1,380	68	22	54	740	7,868	-	802	-	10,934
Average balance of credit to the public	1,298	68	22	54	731	3,176	-	801	-	6,150
Average balance of liabilities	17,526	-	151	-	1,495	15,880	-	14	128	35,194
Average balance of deposits of the public	17,282	-	151	-	1,489	15,390	-	14	128	34,454
Average balance of risk assets	1,567	51	29	28	755	5,322	-	281	-	8,033
Average balance of mutual funds and supplementary training funds	-	-	8,690	-	-	81	1,555	-	-	10,326
Average balance of securities	8,158	-	43,002	-	-	1,765	33,165	-	-	86,090
Average balance of other assets under management	92	-	-	-	-	-	-	-	-	92
Balance of credit to the public	1,357	68	7	59	703	2,957	-	776	-	5,927
Balance of deposits of the public	16,466	-	191	-	1,429	14,899	-	14	111	33,110

Private Banking (contd.)

	Overseas activity									
	Banking and finance	Credit cards	Capital market	Real estate	Mortgages	Banking and finance	Capital market	Mortgages	Real estate	Total
For the six months ended 30 June 2013										
NIS millions										
Net interest income:										
From external sources	(89)	-	-	1	-	17	-	18	(1)	(54)
Intersegmental	134	-	-	5	-	77	-	(12)	2	206
Non-interest income:										
From external sources	(36)	-	89	8	-	109	100	2	-	272
Intersegmental	56	-	-	-	-	(2)	-	-	-	54
Total income	65	-	89	14	-	201	100	8	1	478
Expenses in respect of credit losses	-	-	-	1	-	2	-	-	-	3
Operating and other expenses:										
To external sources	82	1	35	7	-	170	89	5	1	390
Intersegmental	-	-	-	-	-	1	1	-	-	2
Profit (loss) before taxes	(17)	(1)	54	6	-	28	10	3	-	83
Provision for (benefit from) taxes on profit	(6)	-	18	2	-	4	1	1	-	20
Profit (loss) after taxes	(11)	(1)	36	4	-	24	9	2	-	63
Net loss attributable to non-controlling interests	-	-	-	-	-	(4)	-	-	-	(4)
Net profit (loss)	(11)	(1)	36	4	-	20	9	2	-	59
Return on equity	11.3%									
Average balance of assets	1,552	64	29	574	43	9,018	-	879	-	12,159
Average balance of credit to the public	1,435	64	29	567	43	4,400	-	879	-	7,417
Average balance of liabilities	19,067	-	-	1,418	-	16,938	-	19	152	37,594
Average balance of deposits of the public	18,825	-	-	1,411	-	16,472	-	19	152	36,879
Average balance of risk assets	2,046	48	30	540	28	7,523	-	308	-	10,523
Average balance of mutual funds and supplementary training funds	-	-	5,889	-	-	-	1,804	-	-	7,693
Average balance of securities	5,483	-	42,053	-	-	-	35,097	-	-	82,633
Average balance of other assets under management	215	-	-	-	-	-	-	-	-	215
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 0.5 billion, or 8.2%, compared with the end of 2013, and total deposits of the public decreased by some NIS 1.7 billion, or 4.8%.

Main changes in net profit

In the first six months of 2014, the net loss in the private banking segment amounted to NIS 548 million, compared with a profit of NIS 59 million in the corresponding period in 2013. The loss is attributable to operating and other expenses mainly expenses in respect of the investigation by the United States authorities. In addition, there was a decrease on total income amounting to NIS 35 million, which arises, *inter alia*, from significant outflows of monies due to the Group's "declared money" policy.

Cooperation arrangement with Julius Baer and the sale of activity in Switzerland

According to the cooperation arrangement, Leumi Group will refer to Julius Baer existing and future customers with private banking needs in Europe, and at the same time Julius Baer will refer to Leumi existing and future customers with private banking needs in Israel.

This strategic partnership will allow us to offer our customers, who are interested in private banking services in Europe or the Far East, the best value proposals and private banking services of the highest level.

In addition, as part of the cooperation, the unit in Switzerland, Leumi Private Bank, will sell to Julius Baer its assets as defined in the agreement, for consideration of CHF 10 million, in excess of the net value of the assets transferred, subject to adjustments. At the same time as the completion of the transaction and in coordination with the relevant authorities, Leumi Private Bank will take steps to close its banking activity, and to allocate shareholders' equity as a dividend to the Bank.

Simultaneously, the parties have agreed on their intention to enter into a transaction in accordance with an outline plan to be agreed between the parties to sell Bank Leumi Luxembourg to Julius Baer in consideration of the equity of Bank Leumi Luxembourg.

The agreement between Leumi Private Bank and Julius Baer includes an undertaking for various indemnities for a two year period. The amount of indemnity is limited to the amount derived from the shareholders' equity of the units in Switzerland and Luxembourg, as at 31 March 2014 (around CHF 300 million). The undertaking for indemnification is backed by a guarantee of the Bank for the event that Leumi Private is unable to fulfill the indemnity undertaking.

The transaction is subject to the approval of the general meeting of Leumi Private Bank.

The Bank estimates that, at this stage, the transaction is unlikely to have a significant impact on the results of the Group's operations and the consolidated balance sheet.

As of the end of June 2014, Leumi Private Bank has assets under management amounting to CHF 5.9 billion and Leumi Luxembourg asset under management amounting to CHF 1.3 billion.

6. Financial Management – Capital Markets

	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013
	NIS millions		NIS millions	
Net interest income:				
From external sources	(238)	(274)	(184)	(345)
Intersegmental	487	448	540	605
Operating and other income:				
From external sources	333	223	676	662
Intersegmental	(153)	(13)	(167)	(35)
Total income	429	384	865	887
Expenses (income) in respect of credit losses	(10)	(6)	(2)	(48)
Operating and other expenses:				
To external sources	160	300	456	546
Intersegmental	13	10	25	24
Profit (loss) before taxes	266	80	386	365
Provision for (benefit from) taxes	106	(6)	102	107
Profit (loss) after taxes	160	86	284	258
Group share in profits (losses) of companies included on equity basis after effect of tax	(16)	(55)	(54)	(113)
Net profit attributed to non-controlling interests	1	-	1	4
Net profit	145	31	231	149

The profit in the financial management segment in the first six months of 2014 amounted to NIS 231 million, compared with NIS 149 million in the corresponding period in 2013. The increase in the profit resulted primarily from an increase in net interest income amounting to NIS 96 million which is attributed to nostro activity and a decrease in noninterest income amounting to NIS 118 million, as a result of a decrease in profits from the sale of shares and profits in respect of the sale of loans and a decrease in operating expenses which were attributed to this segment and an improvement in the contribution of companies included on equity basis in this six-month period compared with the corresponding period 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 1,641 million on 30 June 2014, compared with NIS 1,689 million on 31 December 2013.

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

Company	Book value			Market value		Capital adequacy requirements (1)	
	NIS millions			NIS millions		NIS millions	
	30 June 2014	31 December 2013	% change	30 June 2014	31 December 2013	30 June 2014	31 December 2013
The Israel Corporation Ltd.	1,045	1,137	(8.1)	2,703	2,526	131	102
Others	596	552	8	-	- *	75	50
Total	1,641	1,689	(2.8)	2,703	2,526	206	152

* Of which, NIS 197 million at 30 June 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 loss of companies included on equity basis in the first six months of 2014 amounted to NIS 51 million, compared with a loss of NIS 111 million in the corresponding period last year.

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

	For the six months ended 30 June		
	2014	2013	% change
The Israel Corporation Ltd.	(70)	(129)	(45.7)
Others	19	18	5.6
Total	(51)	(111)	(54.1)

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 a 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.

In the first half of 2014, the effect of the results of the Israel Corporation for the first quarter of 2014 was posted. The effect of the results of the Israel Corporation for the second quarter will be included in the Bank's statements for the third quarter of 2014. This reporting gap is constant and in accordance with the directives of the Supervisor of Banks.

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

For further details regarding significant events which were reported by the Israel Corporation, including some in the Zim Arrangement, 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 six months of 2014, the profit in the "Others" segment amounted to NIS 96 million, compared with a loss of NIS 58 million in the corresponding period last year.

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

	For the first half ended		Change in amount
	30 June 2014	2013	
Net profit in the Bank	27	21	6
Other companies in Israel	8	5	3
Overseas companies	2	5	(3)
Tax adjustments (1)	59	(89)	148
Total	96	(58)	154

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

Activities in Products

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

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

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
For the three months ended 30 June 2014								
NIS millions								
Net interest income	1	-	2	-	-	1	-	4
Non-interest income	117	8	3	11	40	31	50	260
Total income	118	8	5	11	40	32	50	264
Operating and other expenses	94	4	2	11	17	30	70	228
Profit (loss) before taxes	24	4	3	-	23	2	(20)	36
Net profit (loss)	16	2	2	-	15	2	(13)	24

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
For the three months ended 30 June 2013								
NIS millions								
Net interest income	1	-	-	1	-	-	-	2
Non-interest income	105	7	5	10	40	29	53	249
Total income	106	7	5	11	40	29	53	251
Operating and other expenses	97	4	1	9	16	36	49	212
Profit (loss) before taxes	9	3	4	2	24	(7)	4	39
Net profit (loss)	6	2	2	2	16	(5)	2	25

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
For the six months ended 30 June 2014								
NIS millions								
Net interest income	2	-	2	1	-	2	-	7
Non-interest income	234	15	6	23	83	63	106	530
Total income	236	15	8	24	83	65	106	537
Operating and other expenses	200	8	5	24	37	63	138	475
Profit (loss) before taxes	36	7	3	-	46	2	(32)	62
Net profit (loss)	23	4	2	-	29	2	(23)	37

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

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

In the first six months of 2014, the net profit from capital market operations amounted to NIS 37 million, compared with a profit of NIS 70 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 six months of 2014 with a net profit of NIS 104 million, compared with a profit of NIS 102 million in the corresponding period in 2013.

During the first six months of 2014, the volume of activity by Leumi Card cardholders increased by 8% compared with the activity in the corresponding period in 2013. The number of valid cards at 30 June 2014 increased by 3% compared with 30 June 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 left 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). On 10 July 2014, an official letter was received from the UnionPay organization approving the company's temporary membership in the organization. The temporary membership enables Leumi Card to begin executing clearing activity of the UnionPay brand in Israel, as well as on the e-commerce websites in Europe and the United States.

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

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
For the three months ended 30 June 2014						
NIS millions						
Net interest income	52	4	5	2	-	63
Noninterest income	181	20	25	11	-	237
Total income	233	24	30	13	-	300
Expenses in respect of credit losses	5	-	-	-	-	5
Operating and other expenses	157	15	20	9	1	202
Profit (loss) before taxes	71	9	10	4	(1)	93
Share of external shareholders	(7)	-	(2)	(1)	-	(10)
Net profit (loss)	43	6	5	2	(1)	55

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
For the three months ended 30 June 2013						
NIS millions						
Net interest income	49	5	5	3	-	62
Non-interest income	168	17	22	12	-	219
Total income	217	22	27	15	-	281
Expenses (income) in respect of credit losses	3	(1)	(1)	-	-	1
Operating and other expenses	167	16	19	8	-	210
Profit before taxes	47	7	9	7	-	70
Share of external shareholders	(6)	(1)	(2)	(1)	-	(10)
Net profit	29	5	4	5	-	43

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
For the six months ended 30 June 2014						
NIS millions						
Net interest income	106	9	9	4	-	128
Noninterest income	356	38	48	21	-	463
Total income	462	47	57	25	-	591
Expenses in respect of credit losses	9	-	-	-	-	9
Operating and other expenses	311	29	39	17	1	397
Profit (loss) before taxes	142	18	18	8	(1)	185
Share of external shareholders	(15)	(1)	(3)	(2)	-	(21)
Net profit (loss)	84	12	10	4	(1)	109

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

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

The net profit from credit card activity in the first half of 2014 amounted to NIS 109 million, compared with NIS 78 million in the corresponding period in 2013, which results mainly from an increase of NIS 27 million in noninterest income.

C. The following tables set out details of real estate activity as presented in the various operating segments:

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
For the three months ended 30 June 2014						
NIS millions						
Net interest income	67	124	58	4	28	281
Non-interest income	17	88	15	5	5	130
Total income	84	212	73	9	33	411
Expenses (income) in respect of credit losses	3	(98)	(6)	-	7	(94)
Operating and other expenses	28	60	11	3	15	117
Profit before taxes	53	250	68	6	11	388
Net profit	33	156	42	3	8	242

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
For the three months ended 30 June 2013						
NIS millions						
Net interest income	55	123	48	4	25	255
Non-interest income	18	65	14	8	4	109
Total income	73	188	62	12	29	364
Expenses(income) in respect of credit losses	2	(38)	2	1	93	60
Operating and other expenses	34	43	14	4	11	106
Profit (loss) before taxes	37	183	46	7	(75)	198
Net profit (loss)	24	118	30	5	(58)	119

C. The following tables set out details of real estate activity as presented in the various operating segments (contd.):

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
For the six months ended 30 June 2014						
NIS millions						
Net interest income	130	239	115	7	59	550
Non-interest income	32	165	27	11	10	245
Total income	162	404	142	18	69	795
Expenses(income) in respect of credit losses	6	(151)	(10)	(1)	5	(151)
Operating and other expenses	58	86	30	7	27	208
Profit before taxes	98	469	122	12	37	738
Net profit	61	292	76	7	25	461

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

Net profit from real estate activity in the first six months of 2014 amounted to NIS 461 million, compared to NIS 281 million in the corresponding period last year, the increase deriving mainly from an increase in net interest income amounting to NIS 46 million, and increase in noninterest income amounting to NIS 35 million and an increase in income in respect of credit losses amounting to NIS 202 million in the corresponding period in 2013, which was offset by tax expenses amounting to NIS 105 million.

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 half of		
	2014	2013	Change
	NIS millions		%
The Bank	1,203	963	24.9
Consolidated companies in Israel (1)	261	326	(19.9)
Overseas consolidated companies (2)	(481)	(118)	-
Companies included on equity basis (1)	(68)	(127)	(46.5)
Net profit	915	1,044	(12.4)
Profit of overseas subsidiaries, in nominal terms (US\$ millions) (3)	(126.2)	(6.5)	-

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

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

- The increase in the net profit of the Bank is mainly due to income in the item credit loss expenses amounting to NIS 123 million, compared with income amounting to NIS 27 million in the corresponding period last year and a decrease in operating expenses, mainly due to attribution of a provision in connection with the investigation of overseas units of the Bank by the United States authorities.
- The decrease in the net profit of consolidated companies in Israel derives mainly from a decrease in the profits of Leumi Partners from the realization of investments in available-for-sale shares, compared with the corresponding period last year.

The net loss of the overseas units in nominal terms, as published by them, translated for convenience to US dollars, totaled some US\$ 126.2 million, compared with a loss of US\$ 6.5 million in the corresponding period in 2013. The loss of the overseas units in shekels, after certain adjustments to Israeli accounting principles, amounted to NIS 481 million, compared with a loss of NIS 118 million in the corresponding period in 2013. The increase in the loss is primarily due to the attribution of expenses in connection with the investigation of overseas units by the United States authorities.

- The reduction in the loss of companies included on equity basis arises from the non-recording of the effect of the operating results of the Israel Corporation in the second quarter of 2014. For further details, see Note 1b, Significant Accounting Policies, below.

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 5,458 million on 30 June 2014, compared with NIS 5,295 million on 31 December 2013. The contribution of the subsidiaries in Israel to net profit in the first six months of 2014 was some NIS 261.0 million, compared with some NIS 325.6 million in the corresponding period in 2013, a decrease of 19.8%.

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 30 June				
	2014	2013	2014	2013	
	%		NIS millions		
Arab Israel Bank	19.0	23.6	51.1	52.5	(2.7)
Leumi Card	15.4	17.0	83.4	81.3	2.6
Leumi Partners (2)	33.4	78.5	104.5	150.5	(30.6)
Leumi Real Holdings	0.6	1.4	2.6	6.2	(58.1)
Leumi-Tech	0.5	2.4	2.7	11.7	(76.9)
Others	3.1	4.6	16.7	23.4	(28.6)
Total consolidated companies in Israel	10.0	14.0	261.0	325.6	(19.8)

(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 4,104 million on 30 June 2014, compared with NIS 4,597 million on 31 December 2013.

In the first six months of 2014, the results of operations of the overseas consolidated subsidiaries amounted to a loss of NIS 481 million, compared with a loss of NIS 118 million in the corresponding period in 2013. As mentioned above, almost all of the loss derives from the attribution of the share of the units in the provision in respect of the investigation of the United States authorities.

For reference to cooperation arrangement with Julius Baer Bank, see chapter on Activity segments in the Group – Private Banking.

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 30 June				
	2014	2013	2014	2013	
	%		NIS millions		
Leumi USA (BLC)	0.2	1.0	3.0	12.6	(76.2)
Leumi UK	13.9	-	49.5	(138.6)	+
Leumi Private Bank	-	2.0	(511.7)	10.5	-
Leumi Luxembourg	-	4.0	(25.2)	3.0	-
Leumi Re	3.2	3.9	1.3	1.8	(27.8)
Leumi Romania	2.3	-	2.9	(5.1)	+
Others	-	-	(0.6)	(1.9)	(68.4)
Total overseas consolidated companies	-	-	(480.8)	(117.7)	-

* Including adjustments for purposes of consolidation of the financial statements.

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

	For the six months ended 30 June		
	2014	2013	Change
	In millions		%
Leumi USA (BLC) - US\$	11.8	3.4	+
Of which: BL USA - US\$	11.5	3.1	+
Leumi UK - £	6.1	(13.3)	-
Leumi Private Bank - CHF	(127.5)	4.0	-
Leumi Luxembourg - €	(4.5)	2.0	-
Leumi Re - US\$	0.6	2.2	(72.7)
Leumi Romania – ron *	2.2	4.7	(53.2)
Total translated to the dollar	(126.2)	(6.5)	-

* 1 ron at 30 June 2014 = NIS 1.0694.

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 30 June 2014 amounted to NIS 1,641 million, compared with NIS 1,689 million on 31 December 2013.

During the first six months of 2014, the contribution to net profit amounted to a loss of NIS 51 million, compared with a loss of NIS 111 million in the corresponding period in 2013.

In the first half of 2014, the operating results of the Israeli Corporation for the first quarter of 2014 were included with the addition of final adjustments in the Company's capital in 2013, because of the gap between the reporting date of the financial statements of the Israel Corporation and the early reporting date of the Bank pursuant to the directives of the Supervisor of Banks. The results for the second quarter will be included within the financial statements for the third 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 half 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 the many regulatory changes which have typified the world of banking in Israel and around the world in recent years; 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 the under-pricing of risks in financial markets and other assets; the revaluation of the exchange rate in the economy, which makes it difficult for export companies. In addition, to the said risks, implications are expected for the whole economy as a result of Operation "Protective Edge". In particular, negative implications are expected for the tourist industry and related sectors, as well as companies and businesses operating in the south of the country. (Reference to subject appears in economic review to the report on page 13.)

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 30 June 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 14.25% which Leumi is reporting at 30 June 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, 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 9	Note 4
Capital adequacy (quantitative and qualitative)	3	Page 11	-
Risk exposures and its assessment – general qualitative disclosure		-	-
Credit risk exposures by main credit type	4(b)		-
Exposures to foreign countries by geographical region	4(c)	Page 100	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 102	-
Operational risk- qualitative disclosure	12	Page 112	-
Investment in shares (qualitative and quantitative)	13(b)	Page 55	-
Investments in shares of companies included on equity basis	13(b)	Page 83	-
Interest risk	14	Page 105	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 30 June 2014:

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (1)	1,831	-	-	-	-	-	-	1,831
United Kingdom (2)	1,764	-	-	-	-	-	-	1,764
United States	2,180	-	-	-	-	-	-	2,180
Other	93	-	-	-	-	-	-	93
Total foreign banks	5,868	-	-	-	-	-	-	5,868
Israeli banks (3)	-	2,106	-	-	-	-	-	2,106
Corporate customers, according to sectors of the economy								
Financial services (4)								3,365
Industry (5)								335
Construction and real estate								62
Transportation and storage								5
Trade								58
Electricity and water								2
Business services								18
Private individuals								11
Communications and computer services								18
Others								16
Total corporate customers								3,890
Others*								-
Total exposure								11,864

* 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 8 banks.
- (4) This amount includes transactions with 501 customers, where the highest amount for a single customer is NIS 1,011 million.
- (5) This amount includes transactions with 226 customers, where the highest amount for a single customer is NIS 230 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (1):

	As at 30 June 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-	12,738	3,081	731	16,550
A+ to A-	1,646	86	31	1,763
BBB+ to BBB-	81	1,162	189	1,432
BB+ to B-	71	4	1	76
Below B-	-	-	-	-
Unrated	205	-	-	205
Total current credit exposure to foreign financial institutions	14,741	4,333	952	20,026
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 757 million at June 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, 43%, Europe (Germany, France, Switzerland, Spain and the Benelux countries), 20%, United Kingdom 23%, and other countries, 14%.

Exposure includes deposits in foreign banks, approximately 91.8% of which are 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):

	30 June 2014		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
USA	22,566	4,997	27,563
UK	12,438	2,585	15,023
France	1,932	910	2,842
Germany	2,315	355	2,670
Switzerland	2,177	400	2,577
Belgium	1,406	82	1,488
Italy	265	43	308
The Netherlands	2,199	179	2,378
Denmark	437	6	443
Norway	171	-	171
Austria	136	15	151
Sweden	206	6	212
China	776	340	1,116
Others	6,815	873	7,688
Total	53,839	10,791	64,630

	31 December 2013		
	Balance sheet credit risk	Off-balance sheet credit risk	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

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, as at 30 June 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	49,022	9,822	58,844	91.1	1,157
High-income countries	1,801	82	1,883	2.9	2
Countries with mid-high income	2,905	725	3,630	5.6	413
Countries with mid-low income	105	160	265	0.4	3
Countries with low income	7	2	9	0.0	-
Total	53,840	10,791	64,631	100.0	1,575

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 1,963 million and relates to 13 countries.

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

High income – more than US\$ 12,746 per capita

Mid-high income - from US\$ 4,126 to US\$ 12,745 per capita

Mid-low income - from US\$ 1,046 to US\$ 4,125 per capita

Low income – up to US\$ 1,045 per capita

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

- a.** OECD countries, including: United States, Italy, Australia, Austria, Ireland, Belgium, Canada, the Czech Republic, Denmark, Finland, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and Korea.
- b.** Countries with high income:
Cyprus, Hong Kong, Monaco, Singapore, Cayman Islands and Croatia
- c.** Countries with mid-high income:
Argentina, Brazil, Bulgaria, Chile, Mexico, Panama, Romania, Russia, South Africa, Turkey, Venezuela, Uruguay, Columbia, Peru
- d.** Countries with mid-low income:
China, Ecuador, Egypt, India, Jordan, Paraguay, the Philippines, Thailand, the Ukraine
- e.** Countries with low income:
A large number of the African countries, Haiti, Nepal

Overall exposure to certain foreign countries:

Country	30 June 2014				
	Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
	NIS millions				
Italy (1)	74	180	11	43	308
Ireland	36	445	-	4	485
Greece	-	-	-	1	1
Spain	24	96	-	30	150
Total (2)	134	721	11	78	944

(1) Of which, NIS 181 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).

	30 June 2014	30 June 2013	31 December 2013
	NIS millions		
Capital requirements (1) in respect of:			
Interest risks	1,119	819	707
Share price risk	177	77	127
Exchange rate risk	100	148	69
Options	62	48	43
Total capital requirement in respect of market risks	1,458	1,092	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 value² 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 into the management of the activity, is being developed.

From the beginning of 2014, the methodology for measuring interest exposure was changed, according to which, the interest exposures between the unlinked shekel sector and the index-linked sector were offset, 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
	30 June 2014	
Banking portfolio	900	314
Trading portfolio	450	219
Total	1,100	485
	Potential erosion in annual profit	
	Limit	Actual
Total	500	80

* 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.

² 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.

** On the basis of the methodology which was implemented from the beginning of 2014, the potential erosion of the economic value to interest is NIS 605 million.

In the first six months of 2014, the potential erosion in the economic value ranged from NIS 406 million to NIS 563 million and in annual profit, from NIS 80 million to NIS 215 million.

In the first six 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:

	30 June 2014				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	212,801	59,220	50,064	9,668	12,926
Amounts receivable in respect of derivative financial and off-balance sheet instruments	292,384	6,106	127,394	47,096	22,169
Financial liabilities	171,194	52,422	72,675	16,579	10,422
Amounts payable in respect of derivative financial and off-balance sheet instruments	315,725	8,472	106,316	40,504	24,601
Net fair value of financial instruments	18,266	4,432	(1,533)	(309)	72

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

The net fair value of financial instruments, before the effect of changes in interest (contd.):

	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):

30 June 2014							
Fair value, net, of financial instruments after the effect of changes in interest rates							
Change in interest rates	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			Change in fair value	
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	17,741	4,294	(1,676)	(349)	63	(855)	(4.1)
Immediate corresponding increase of 0.1%	18,213	4,418	(1,547)	(313)	71	(86)	(0.4)
Immediate corresponding decrease of 1%	18,856	4,584	(1,434)	(267)	82	893	4.3

30 June 2013							
Fair value, net, of financial instruments after the effect of changes in interest rates							
Change in interest rates	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			Change in fair value	
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	19,196	1,943	(3,313)	460	(28)	(1,164)	(5.99)
Immediate corresponding increase of 0.1%	19,970	1,968	(3,084)	474	(24)	(118)	(0.61)
Immediate corresponding decrease of 1%	20,948	1,910	(2,817)	492	(15)	1,096	5.64

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

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

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 half 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.

	30 June 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)	1.13	3.70	0.98	1.19	2.94	0.86
Average duration of liabilities (1)	1.00	3.31	0.79	1.10	3.21	0.74
Duration gap in years	0.13	0.39	0.19	0.09	(0.27)	0.12
Internal rate of return (IRR) gap (%)	1.64	0.86	1.14	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 3.65 years, with an internal rate of return (hereinafter: IRR) gap of 0.70%.

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 4.04 years, and an IRR gap of about 0.70%.

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 1.06 years in unlinked shekels and 0.84 years in foreign currency, with an IRR gap of 1.51% and 0.88%, 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 (%)		
		30 June 2014	30 June 2013	31 December 2013
Unlinked	(65%)-65%	(12.8)	0.7	(10.2)
CPI-linked	(50%)-50%	11.8	(1.2)	6.4
Foreign currency	(15%)-15%	1.0	0.5	3.8

During the first six months of 2014, the average rate of equity invested in the linked sector stood at a surplus of about 8% of the exposed capital, which fluctuates between a surplus of 2% and a surplus of 13% 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 six 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 30 June 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	11	5	5	3	(1)
Increase of 10% in exchange rate	63	17	11	6	(4)
Decrease of 5% in exchange rate	(4)	9	(5)	(2)	2
Decrease of 10% in exchange rate	(37)	29	(10)	(5)	7

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		
	30 June 2014	30 June 2013	31 December 2013	30 June 2014	30 June 2013	31 December 2013
Actual	94	122	126	54	67	53
Limit	500	500	500	400	400	400

In the first six 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 32.8 billion and in securities, some NIS 27.8 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 18.4 billion, and in bank deposits, some NIS 11.2 billion.

The balance of public deposits in the Bank, not including subordinated notes, fell during the first six months of 2014 by NIS 5.3 billion (1.8%), and after canceling the effect of exchange rate differentials, the decrease was NIS 4.4 billion (1.5%).

The shekel segment recorded an increase of NIS 0.8 billion (0.4%), while and in the foreign currency and foreign currency linked segment, there was a decrease of NIS 6.1 billion, (6.0%), after canceling the effect of exchange rate differentials, a decrease of NIS 5.2 billion (5.1%).

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 overall index or foreign currency, 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.

On 24 June 2014, the Bank of Israel published a new draft of Proper Conduct of Banking Business Management Directive regarding Liquidity Coverage Ratio (LCR), which will come into effect on 1 April 2015. Pursuant to this directive, the ratio will be measured according to the Basel III recommendations and the position of the Supervisor on subjects in which the Supervisor may exercise discretion. The minimum requirement for the liquidity coverage ratio will be 60% and will increase to 80% on 1 January 2016 and to 100% on 1 January 2017.

Linkage Status and Liquidity Position

Linkage Status

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

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

	As at 30 June 2014			As at 31 December 2013		
	Unlinked NIS millions	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
Total assets (1)	227,649	56,932	104,964	227,187	57,812	112,180
Total liabilities (1)	205,342	56,910	108,322	205,407	58,571	114,950
Excess (deficit) of assets in segment	22,307	22	(3,358) (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 Leumi's balances in the Bank of Israel at the end of June 2014 amounted to some NIS 33 billion, compared with NIS 27 billion at the end of December 2013.

The Bank also has a securities portfolio of some NIS 43 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 23.5% of the financial assets of the Bank, a decrease of some 2.6% 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 six 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.

The Compliance and Enforcement Department updates the compliance policy and the method of managing risk in order to provide a solution to the major compliance risks. In this context, events and the materialization of compliance risks inside and outside Leumi, as well as the revision of legislation updates, are examined.

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 30 June 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, it was agreed that 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 also thus 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 agreements with the Commissioner, as part of the compromise arrangements in a number of petitions for the approval for class actions pending against the Bank. On 15 June 2014, the Antitrust Court approved the agreements between the parties and gave effect to the agreed order.
- (b) The Bank Leumi Group ("the Group") and its representatives are in intensive contact with the United States Department of Justice to finish formulating an agreed arrangement regarding the investigations they are conducting against the Group in connection with the Group's activities vis-à-vis American customers.

As reported by the Bank on 8 June 2014, in view of the Bank's updated assessment regarding the amount of the final arrangement with the DOJ, the Group increased the provision amounting to NIS 460 million, such that the total balance of the provision of the subject, in the Group's books as of 30 June 2014, will amount to NIS 946 million (including in respect of the balance of expected expenses of the consultants, service-providers and outside experts). This provision is not an admission of any claim against the Group.

In addition, the United States Securities and Exchange Commission (SEC) and the New York State Department of Financial Services (NYDFS) have also commenced investigations into the Group's activities.

In view of the aforesaid, it is still not possible to determine with certainty the amount of the expense which the Group is expected to incur on these issues and there is still the possibility that the final amount of the expense will be significantly higher than the amount included in the financial statements.

- (c) On 29 June 2014, an appeal was submitted to the Supreme Court, sitting as the High Court of Justice, against the Supervisor of Banks and the Governor of the Bank of Israel, and against four companies from the IDB Group (Tomahawk, Genden Holdings, IDB Holdings, IDB Development). The banks, Leumi, Hapoalim, Mizrahi and Discount were attached as respondents. According to the appellants, they petitioned the Supervisor several times so that he would examine the conduct of the banking system *vis-à-vis* the IDB Group. However, they allege their application was not addressed, and accordingly, they are appealing for the grant of show cause orders that will instruct the Supervisor to explain why he will not reply to the merits of the appellants' petitions regarding the exercise of his authorities in all matters relating to the debt arrangements with the large business groups in the economy, particularly with the IDB Group, and why he will not conduct a comprehensive investigation into the conduct of the banking system in giving credit to the IDB Group, including giving collateral, guarantees, loan recycling, decisions of the Credit Committee, and the debt arrangements with the Group. The appellants further claimed that the Supervisor was obliged to draw systematic and personal conclusions from the said investigation, announce them to the public and act in accordance with his authority to remedy the deficiencies, including requiring the banks to collect the debts of the IDB Group in their entirety and remove those responsible for the deficiencies from their position.

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

Corporate Responsibility

At the beginning of June, the 2014 Maala corporate responsibility rating was published. Leumi was rated in the highest rating group the Platinum-plus category. The high rating reflects the many resources which have been invested in the subject, and Leumi's continuing commitment for management of the area. The subsidiaries, Leumi Card and the Ai Bank are also rated in the Platinum-plus group.

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

In anticipation of the end of the academic year, a number of end-of-year events were held in the various programs of the social organizations and associations with which Leumi Tomorrow cooperates. Within this framework, a festive ceremony was held on Mount Herzl to mark the end of the year of activity of the "Follow Me" Association, which takes steps for the development of leadership among the youth on the social and geographic periphery. 3,000 members of "Follow Me" from throughout Israel that participated in the event arrived following a nighttime stretcher march to conclude the year.

Involvement of employees in the community

Leumi continues to encourage and support its employees who volunteer within the community, accompanied by the employee involvement unit. The employees volunteer in the geographic and social periphery, particularly for children and youth through training and experiential enrichment activities. In addition, the volunteers have recently commenced advance programs on the area of economic empowerment. The activities are held in conjunction with social organizations, welfare departments and local authorities. Furthermore, the employees volunteer to help various populations, including Holocaust survivors, pensioners, etc.

Young Entrepreneurs

Young Entrepreneurs is an international organization which operates in 102 countries and has been adopted by some of the largest companies in the world. In Israel, the organization has been adopted from the date of its foundation, some 20 years ago, by Bank Leumi. Each year, over 4,000 young people from all over Israel and from all sectors take part.

In the Young Entrepreneurs Competition in June in Tel Aviv, "Puzzle" Group from the "Gevanim" Middle School in Kadima-Zuran won first place. The youths developed a product called the "Mosquiton", a easy-to-open and folding bed-net which protects against mosquitoes and other insects and reptiles. Leumi supports the project both by means of a donation transferred to the organization, and by way of professional direction and tutoring of groups of young entrepreneurs who compete for the establishment of an innovative start-up company.

Summary of Donations and Sponsorships

In the first six months of 2014, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 14.5 million, of which donations totaled some NIS 7.1 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 is validating and updating 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 30 June 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. Hanan Friedman will be appointed Head of the Legal Division, Chief Legal Counsel and member of Bank management, with effect from 1 September 2014. On 20 August 2014, following the receipt of approval from the Remuneration Committee, the Board of Directors approved the payment of a one-time signing-on bonus to Mr. Friedman, pursuant to the Bank's remuneration policy, which will be granted in his first year of office.

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. Eli Katzav was appointed to the position of Chief Executive Officer of Bank Leumi UK with effect from 1 August 2014.

Retirements:

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

Ms. Nomi Sandhaus, a member of Bank management, will cease to serve as Chief Legal Counsel and as Head of the Legal Division on 31 August 2014, and will retire during 2015 after 33 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.

Mr. Yitzhak Eyal, the Chief Executive Officer of Leumi USA, ceased to serve in his position and retired in 2 June 2014, after 39 years of employment in the Leumi Group.

Mr. Aviram Cohen, Head of the Marketing, Advertising and Spokesperson's Department ceased to serve in his position and will retire on 21 August 2014, after nine years of employment with the Bank.

Ms. Meira Karni, Head of Compliance and Enforcement, ceased to serve in her position and will retire on 30 December 2014, after 32 years employment with the Bank.

Mr. Shlomo Pergament, Deputy Head of Operations and Computing ceased to serve in his position and will retire on 6 November 2014, after 36 years employment with the Bank.

Mr. Larry Weiss, Chief Executive Officer of Bank Leumi UK, ceased to serve in his position 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

During the first six months of 2014 and up until the date of publication of this Report, the following changes took place in the composition of the Board of Directors:

In accordance with the Bank's regulations, at the Annual General Meeting of the Bank, Ms. Zipporah Samet, Ms. Miri Katz, Mr. David Avner and Mr. Amos Sapir resigned.

On 25 July 2014, Ms. Miri Katz, Ms. Zipporah Samet and Mr. David Avner terminated their term of office as directors. Mr. Amos Sapir is expected to terminate his term of office as director in the Bank on 31 October 2014.

On 6 August 2014, the Annual General Meeting of the Bank was held, with the following subjects on appearing on the agenda, *inter alia*: (1) the election of two directors for a term of office on the Board of Directors of the Bank; (2) the election of one external director pursuant to Regulation 301 of the Supervisor of Banks; and (3) the election of one external director pursuant to the Companies Law.

At the Annual General Meeting, the following serving directors were re-elected, Ms. Zipporah Samet, as external director pursuant to the Companies Law for a period of three years, and Mr. David Avner. In addition, Professor Haim Levy, as external director pursuant to Regulation 301 of the Supervisor of Banks, and Dr. Samer Haj Yahi, were elected as directors.

The election of the directors who were elected at the Annual General Meeting is conditional on the approval of, or of the absence of any objection of, the Supervisor of Banks pursuant to Section 11a of the Banking Ordinance, which has, so far, been passed with regard to Ms. Zipporah Samet and Mr. David Avner

The Board of Directors currently consists of 14 directors.

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

During the period of January to June 2014, the Board of Directors held 25 plenary meetings and 66 committee meetings.

At the meeting of the Board of Directors held on 20 August 2014, it was resolved to approve and publish the Group's condensed unaudited consolidated financial statements as of 30 June 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

Rakefet Russak-Aminoach
President and Chief Executive Officer

20 August 2014

Rates of Income and Expenses^a

Exhibit A

Part A – Average balances and interest rates - assets

	For the three months ended 30 June					
	2014			2013		
	Average balance (b)	Interest income	Rate of income	Average balance (b)	Interest income	Rate of income
	(NIS millions)		%	(NIS millions)		%
Income-bearing assets						
Credit to the public (c)						
In Israel	215,912	2,323	4.37	209,244	2,589	5.04
Outside Israel	22,913	220	3.90	25,100	216	3.49
Total (i)	238,825	2,543	4.33	234,344	2,805	4.87
Credit to the Government						
In Israel	449	6	5.45	420	7	6.84
Outside Israel	42	-	-	15	-	-
Total	491	6	4.98	435	7	6.59
Deposits in banks						
In Israel	7,051	18	1.03	8,572	19	0.89
Outside Israel	1,428	3	0.84	2,171	4	0.74
Total	8,479	21	0.99	10,743	23	0.86
Deposits in central banks						
In Israel	21,161	39	0.74	24,932	96	1.55
Outside Israel	6,330	2	0.13	4,919	3	0.24
Total	27,491	41	0.60	29,851	99	1.33
Securities borrowed or purchased under resale agreements						
In Israel	1,346	3	0.89	1,030	4	1.56
Outside Israel	-	-	-	-	-	-
Total	1,346	3	0.89	1,030	4	1.56
Bonds available for sale (d)						
In Israel	39,007	149	1.54	37,979	186	1.97
Outside Israel	4,290	12	1.12	3,742	10	1.07
Total	43,297	161	1.50	41,721	196	1.89
Bonds for trading (d)						
In Israel	9,595	36	1.51	9,971	56	2.27
Outside Israel	146	1	2.77	397	1	1.01
Total	9,741	37	1.53	10,368	57	2.22
Total interest-bearing assets	329,670	2,812	3.46	328,492	3,191	3.94
Receivables for non-interest bearing credit cards	7,192			6,483		
Other non-interest bearing assets (e)	31,563			29,708		
Total assets	368,425	2,812		364,683	3,191	
Total income-bearing assets attributable to activity outside Israel	35,149	238	2.74	36,344	234	2.60

See notes on page 126.

Rates of Income and Expenses^a (cont'd)

Exhibit A

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

	For the three months ended 30 June					
	2014			2013		
	Average balance (b)	Interest expense	Rate of expense	Average balance (b)	Interest expense	Rate of expense
	(NIS millions)		%	(NIS millions)		%
<u>Interest-bearing liabilities</u>						
Deposits of the public						
In Israel	248,944	(504)	(0.81)	244,675	(833)	(1.37)
On demand	75,464	(20)	(0.11)	60,973	(34)	(0.22)
Fixed term	173,480	(484)	(1.12)	183,702	(799)	(1.75)
Outside Israel	17,191	(32)	(0.75)	17,543 (j)	(51)	(1.17) (j)
On demand	3,105	(2)	(0.26)	2,699 (j)	(2)	(0.30) (j)
Fixed term	14,086	(30)	(0.85)	14,844	(49)	(1.33)
Total	266,135	(536)	(0.81)	262,218	(884)	(1.36)
Deposits of the Government						
In Israel	153	(1)	(2.64)	237	(3)	(5.16)
Outside Israel	242	-	-	231	-	-
Total	395	(1)	(1.02)	468	(3)	(2.59)
Deposits from central banks						
In Israel	-	-	-	-	-	-
Outside Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Deposits from banks						
In Israel	3,924	(10)	(1.02)	3,150	(11)	(1.40)
Outside Israel	164	(1)	(2.46)	223	-	-
Total	4,088	(11)	(1.08)	3,373	(11)	(1.31)
Securities lent or sold under resale agreements						
In Israel	563	(3)	(2.15)	641	(2)	(1.25)
Outside Israel	-	-	-	55	(1)	(7.47)
Total	563	(3)	(2.15)	696	(3)	(1.74)
Bonds						
In Israel	24,498	(356)	(5.94)	27,516	(451)	(6.72)
Outside Israel	10	-	-	10	-	-
Total	24,508	(356)	(5.94)	27,526	(451)	(6.72)
Total interest-bearing liabilities	295,689	(907)	(1.23)	294,281	(1,352)	(1.85)
Non-interest bearing deposits of the public	13,563			14,469 (j)		
Payables for non-interest bearing credit cards	7,855			7,027		
Other non-interest bearing liabilities (f)	24,078			23,842		
Total liabilities	341,185	(907)		339,619	(1,352)	
Total capital means	27,240			25,064		
Total liabilities and capital means	368,425	(907)		364,683	(1,352)	
Interest margin		1,905	2.22		1,839	2.09 (j)
<u>Net yield (g) on income-bearing assets</u>						
In Israel	294,521	1,700	2.33	292,148	1,657	2.29
Outside Israel	35,149	205	2.35	36,344	182	2.02
Total	329,670	1,905	2.33	328,492	1,839	2.26
Total income-bearing liabilities attributable to activity outside Israel	17,607	(33)	(0.75)	18,062	(52)	(1.16)

See notes on page 126.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Part A – Average balances and interest rates – assets (cont'd)

	For the six months ended 30 June					
	2014			2013		
	Average balance (b)	Interest income	Rate of income	Average balance (b)	Interest income	Rate of income
	(NIS millions)		%	(NIS millions)		%
Income-bearing assets						
Credit to the public (c)						
In Israel	213,466	4,030	3.81	209,629	4,814	4.65
Outside Israel	23,546	451	3.87	26,141	487	3.76
Total (i)	237,012	4,481	3.82	235,770	5,301	4.55
Credit to the Government						
In Israel	466	9	3.90	420	11	5.31
Outside Israel	43	-	-	16	-	-
Total	509	9	3.57	436	11	5.11
Deposits in banks						
In Israel	6,642	28	0.84	7,857	29	0.74
Outside Israel	1,628	6	0.74	2,580	8	0.62
Total	8,270	34	0.82	10,437	37	0.71
Deposits in central banks						
In Israel	20,160	82	0.82	25,585	211	1.66
Outside Israel	5,878	5	0.17	4,606	3	0.13
Total	26,038	87	0.67	30,191	214	1.42
Securities borrowed or purchased under resale agreements						
In Israel	1,435	7	0.98	1,166	10	1.72
Outside Israel	-	-	-	-	-	-
Total	1,435	7	0.98	1,166	10	1.72
Bonds available for sale (d)						
In Israel	41,851	317	1.52	37,838	360	1.91
Outside Israel	4,186	24	1.15	3,842	19	0.99
Total	46,037	341	1.49	41,680	379	1.83
Bonds for trading (d)						
In Israel	9,937	52	1.05	10,069	98	1.96
Outside Israel	104	2	3.88	516	4	1.56
Total	10,041	54	1.08	10,585	102	1.94
Total interest-bearing assets	329,342	5,013	3.07	330,265	6,054	3.70
Receivables for non-interest bearing credit cards	7,066			6,580		
Other non-interest bearing assets (e)	32,731			29,592		
Total assets	369,139	5,013		366,437	6,054	
Total income-bearing assets attributable to activity outside Israel	35,385	488	2.78	37,701	521	2.78

See notes on page 126.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Part B – Average balances and interest rates – liabilities and equity (cont'd)

	For the six months ended 30 June					
	2014			2013		
	Average balance (b)	Interest expense	Rate of expense	Average balance (b)	Interest expenses	Rate of expenses
	(NIS millions)		%	(NIS millions)		%
<u>Interest-bearing liabilities</u>						
Deposits of the public						
In Israel	249,043	(775)	(0.62)	245,243	(1,557)	(1.27)
On demand	75,185	(45)	(0.12)	59,007	(71)	(0.24)
Fixed term	173,858	(730)	(0.84)	186,236	(1,486)	(1.60)
Outside Israel	16,704	(69)	(0.83)	18,125 (j)	(103)	(1.14) (j)
On demand	2,722	(4)	(0.29)	2,627 (j)	(4)	(0.30) (j)
Fixed term	13,982	(65)	(0.93)	15,498	(99)	(1.28)
Total	265,747	(844)	(0.64)	263,368	(1,660)	(1.26)
Deposits of the Government						
In Israel	151	(3)	(4.01)	249	(5)	(4.06)
Outside Israel	241	-	-	211	-	-
Total	392	(3)	(1.54)	460	(5)	(2.19)
Deposits from central banks						
In Israel	20	-	-	-	-	-
Outside Israel	-	-	-	-	-	-
Total	20	-	-	-	-	-
Deposits from banks						
In Israel	3,715	(17)	(0.92)	3,270	(19)	(1.17)
Outside Israel	121	(1)	(1.66)	243	(1)	(0.82)
Total	3,836	(18)	(0.94)	3,513	(20)	(1.14)
Securities lent or sold under resale agreements						
In Israel	679	(5)	(1.48)	729	(7)	(1.93)
Outside Israel	-	-	-	55	(1)	(3.67)
Total	679	(5)	(1.48)	784	(8)	(2.05)
Bonds						
In Israel	24,957	(481)	(3.89)	27,539	(760)	(5.60)
Outside Israel	10	-	-	10	-	-
Total	24,967	(481)	(3.89)	27,549	(760)	(5.59)
Total interest-bearing liabilities	295,641	(1,351)	(0.92)	295,674	(2,453)	(1.67)
Non-interest bearing deposits of the public	13,715			14,850 (j)		
Payables for non-interest bearing credit cards	7,686			7,088		
Other non-interest bearing liabilities (f)	24,993			23,548		
Total liabilities	342,035	(1,351)		341,160	(2,453)	
Total capital means	27,105			25,277		
Total liabilities and capital means	369,140	(1,351)		366,437	(2,453)	
Interest margin		3,662	2.15		3,601	2.03 (j)
<u>Net yield (g) on income-bearing assets</u>						
In Israel	293,957	3,244	2.22	292,564	3,185	2.19
Outside Israel	35,385	418	2.38	37,701	416	2.22
Total	329,342	3,662	2.24	330,265	3,601	2.19
Total income-bearing liabilities attributable to activity outside Israel	17,076	(70)	(0.82)	18,644	(105)	(1.13)

See notes on page 126.

Rates of Income and Expenses^a (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 30 June					
	2014			2013		
	Average balance (b)	Interest income (expense)	Rate of income (expense)	Average balance (b)	Interest income (expense)	Rate of income (expense)
	(NIS millions)		%	(NIS millions)		%
Index-linked Israeli currency						
Total interest-bearing assets	56,674	759	5.47	60,153	938	6.38
Total interest-bearing liabilities	48,759	(579)	(4.84)	49,690	(739)	(6.08)
Interest margin	7,915	180	0.63	10,463	199	0.30
Unlinked Israeli currency						
Total interest-bearing assets	199,056	1,596	3.25	187,432	1,760	3.81
Total interest-bearing liabilities	159,952	(259)	(0.65)	152,768	(489)	(1.29)
Interest margin	39,104	1,337	2.60	34,664	1,271	2.52
Foreign currency						
Total interest-bearing assets	38,791	219	2.28	44,563	259	2.35
Total interest-bearing liabilities	69,371	(36)	(0.21)	73,761	(72)	(0.39)
Interest margin	(30,580)	183	2.07	(29,198)	187	1.96
Total activity in Israel						
Total interest-bearing assets	294,521	2,574	3.54	292,148	2,957	4.11
Total interest-bearing liabilities	278,082	(874)	(1.26)	276,219	(1,300)	(1.90)
Interest margin	16,439	1,700	2.28	15,929	1,657	2.21
	For the six months ended 30 June					
	2014			2013		
	Average balance (b)	Interest income (expense)	Rate of income (expense)	Average balance (b)	Interest income (expenses)	Rate of income (expenses)
	(NIS millions)		%	(NIS millions)		%
Index-linked Israeli currency						
Total interest-bearing assets	57,058	895	3.16	60,173	1,494	5.03
Total interest-bearing liabilities	49,110	(656)	(2.69)	49,698	(1,158)	(4.71)
Interest margin	7,948	239	0.47	10,475	336	0.32
Unlinked Israeli currency						
Total interest-bearing assets	198,584	3,206	3.25	187,785	3,578	3.85
Total interest-bearing liabilities	158,780	(550)	(0.69)	152,285	(1,032)	(1.36)
Interest margin	39,804	2,656	2.56	35,500	2,546	2.49
Foreign currency						
Total interest-bearing assets	38,315	424	2.23	44,606	461	2.08
Total interest-bearing liabilities	70,675	(75)	(0.21)	75,047	(158)	(0.42)
Interest margin	(32,360)	349	2.02	(30,441)	303	1.66
Total activity in Israel						
Total interest-bearing assets	293,957	4,525	3.10	292,564	5,533	3.82
Total interest-bearing liabilities	278,565	(1,281)	(0.92)	277,030	(2,348)	(1.70)
Interest margin	15,392	3,244	2.18	15,534	3,185	2.12

See notes on page 126.

Rates of Income and Expenses^a (cont'd)

Exhibit A

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

	2014 compared to 2013			2014 compared to 2013		
	For the six months ended 30 June			For the three months ended 30 June		
	Increase (decrease) due to		Net change	Increase (decrease) due to		Net change
	change (h)			change (h)		
	Amount	Price		Amount	Price	
(NIS millions)						
Interest-bearing assets						
Credit to the public						
In Israel	72	(856)	(784)	72	(338)	(266)
Outside Israel	(50)	14	(36)	(21)	25	4
Total	22	(842)	(820)	51	(313)	(262)
Other interest-bearing assets						
In Israel	(15)	(209)	(224)	(14)	(103)	(117)
Outside Israel	1	2	3	1	(1)	-
Total	(14)	(207)	(221)	(13)	(104)	(117)
Total interest income	8	(1,049)	(1,041)	38	(417)	(379)
Interest-bearing liabilities						
Deposits of the public						
In Israel	12	(794)	(782)	9	(338)	(329)
Outside Israel	(7)	(27)	(34)	(1)	(18)	(19)
Total	5	(821)	(816)	8	(356)	(348)
Other interest-bearing liabilities						
In Israel	(39)	(246)	(285)	(31)	(66)	(97)
Outside Israel	-	(1)	(1)	-	-	-
Total	(39)	(247)	(286)	(31)	(66)	(97)
Total interest expenses	(34)	(1,068)	(1,102)	(23)	(422)	(445)

See notes on page 126.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Notes:

- (a) The data in these tables are shown after the effect of hedging derivative instruments.
- (b) 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.
- (c) Before deduction of the average balance of credit loss allowances. Including impaired debts not accumulating interest income.
- (d) 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 and six month period, an amount of NIS 511 million and NIS 437 million (30 June 2013 – NIS 604 million and NIS 617 million respectively).
- (e) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.
- (f) Including book balances of derivative instruments, and non-monetary liabilities.
- (g) Net yield – net interest income divided by total interest-bearing assets.
- (h) 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.
- (i) Commissions for the three month and six month period, an amount of NIS 110 million and NIS 240 million have been included in interest from credit to the public (30 June 2013 – NIS 71 million and NIS 136 million respectively).
- (j) Reclassified.

Exposure to Interest Rate Fluctuations

Exhibit B

	30 June 2014								31 December 2013						30 June 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 (b)	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)
	(NIS millions)										(%)	(Years)		(%)	(Years)		(%)	(Years)
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	161,436	12,122	19,357	6,065	6,008	3,828	3,282	443	260	212,801	2.98	0.68	211,239	3.51	0.59	201,061	3.63	0.58
Derivative financial instruments (excluding options)	49,249	91,991	53,421	41,527	23,410	25,887	521	-	-	286,006	-	1.49	303,155	-	1.63	307,822	-	1.59
Options (in terms of basis asset) (d)	(3,223)	900	1,288	706	5,573	1,073	61	-	-	6,378	-	-	8,494	-	-	12,331	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	207,462	105,013	74,066	48,298	34,991	30,788	3,864	443	260	505,185	2.98	1.13	522,888	3.51	1.19	521,214	3.63	1.17
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	148,699	7,395	5,599	3,742	5,191	481	79	-	8	171,194	1.34	0.28	169,974	0.93	0.23	160,818	2.45	0.25
Derivative financial instruments (excluding options)	52,341	102,948	58,236	47,928	23,447	25,202	467	27	-	310,596	-	1.42	328,510	-	1.56	331,119	-	1.54
Options (in terms of basis asset) (d)	(3,260)	1,313	1,517	753	4,430	349	-	-	-	5,102	-	-	5,868	-	-	9,095	-	-
Off-balance sheet financial instruments	-	-	27	-	-	-	-	-	-	27	-	0.50	27	-	0.50	126	-	0.50
Total fair value	197,780	111,656	65,379	52,423	33,068	26,032	546	27	8	486,919	2.11	1.00	504,379	0.93	1.10	501,158	2.45	1.10
Financial instruments, net																		
Exposure to interest rate fluctuations	9,682	(6,643)	8,687	(4,125)	1,923	4,756	3,318	416										
Accumulated exposure in the sector	9,682	3,039	11,726	7,601	9,524	14,280	17,598	18,014										
Israeli currency – linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	132	3,657	12,070	16,564	14,558	7,613	3,934	664	28	59,220	1.41	3.72	59,960	2.03	2.93	61,122	2.00	2.97
Derivative financial instruments (excluding options)	190	568	956	854	2,067	1,426	45	-	-	6,106	-	3.48	7,098	-	3.03	6,683	-	2.76
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	322	4,225	13,026	17,418	16,625	9,039	3,979	664	28	65,326	1.41	3.70	67,058	2.03	2.94	67,805	2.00	2.95
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	1,651	2,591	12,447	12,722	10,781	11,004	915	311	-	52,422	0.55	3.38	53,425	1.27	3.36	53,809	1.42	3.42
Derivative financial instruments (excluding options)	216	96	3,489	1,672	1,368	891	624	-	-	8,356	-	2.94	9,744	-	2.47	12,025	-	1.91
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	116	-	-	-	-	-	-	116	-	-	100	-	-	-	-	-
Total fair value	1,867	2,687	16,052	14,394	12,149	11,895	1,539	311	-	60,894	0.55	3.31	63,269	1.27	3.21	65,834	1.42	3.15
Financial instruments, net																		
Exposure to interest rate fluctuations	(1,545)	1,538	(3,026)	3,024	4,476	(2,856)	2,440	353										
Accumulated exposure in the sector	(1,545)	(7)	(3,033)	(9)	4,467	1,611	4,051	4,404										

See notes on page 129.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

	30 June 2014										31 December 2013				30 June 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 (b)	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)
	(NIS millions)										(%)	(Years)	(%)	(Years)	(%)	(Years)		
Foreign currency and foreign currency linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	39,768	12,587	4,975	4,656	4,126	4,300	1,726	332	188	72,658	2.26	1.29	77,800	2.40	0.99	78,724	2.33	1.00
Derivative financial instruments (excluding options)	44,820	57,863	52,611	8,206	9,040	14,503	650	247	149	188,089	-	0.91	168,127	-	0.87	150,842	-	0.83
Options (in terms of basis asset) (d)	2,578	1,862	3,713	324	8	18	67	-	-	8,570	-	-	13,784	-	-	15,865	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	87,166	72,312	61,299	13,186	13,174	18,821	2,443	579	337	269,317	2.26	0.98	259,711	2.40	0.86	245,431	2.33	0.83
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	71,555	11,469	12,589	2,885	670	456	37	1	14	99,676	1.12	0.26	104,920	0.86	0.27	105,960	0.98	0.29
Derivative financial instruments (excluding options)	37,690	45,076	37,309	13,356	10,515	16,997	612	308	149	162,012	-	1.16	140,853	-	1.17	123,331	-	1.18
Options (in terms of basis asset) (d)	2,358	1,537	3,532	304	971	634	61	-	-	9,397	-	-	15,769	-	-	18,735	-	-
Off-balance sheet financial instruments	-	-	12	-	-	-	-	-	-	12	-	0.50	14	-	0.50	11	-	0.50
Total fair value	111,603	58,082	53,442	16,545	12,156	18,087	710	309	163	271,097	1.12	0.79	261,556	0.86	0.74	248,037	0.98	0.71
Financial instruments, net																		
Exposure to interest rate fluctuations	(24,437)	14,230	7,857	(3,359)	1,018	734	1,733	270										
Accumulated exposure in the sector	(24,437)	(10,207)	(2,350)	(5,709)	(4,691)	(3,957)	(2,224)	(1,954)										
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a) (c)	201,336	28,366	36,402	27,285	24,692	15,741	8,942	1,439	4,398	348,601	2.10	1.33	353,432	2.62	1.08	344,586	2.59	1.11
Derivative financial instruments (excluding options)	94,259	150,422	106,988	50,587	34,517	41,816	1,216	247	1,299	481,351	-	1.29	479,943	-	1.39	465,720	-	1.36
Options (in terms of basis asset) (d)	(645)	2,762	5,001	1,030	5,581	1,091	128	-	25	14,973	-	-	22,294	-	-	28,196	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	294,950	181,550	148,391	78,902	64,790	58,648	10,286	1,686	5,722	844,925	2.10	1.28	855,669	2.62	1.23	838,502	2.59	1.21
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a) (c)	221,905	21,455	30,635	19,349	16,642	11,941	1,031	312	442	323,712	0.76	0.78	328,960	1.46	0.75	320,748	1.53	0.80
Derivative financial instruments (excluding options)	90,247	148,120	99,034	62,956	35,330	43,090	1,703	335	1,197	482,012	-	1.35	481,033	-	1.47	466,827	-	1.45
Options (in terms of basis asset) (d)	(902)	2,850	5,049	1,057	5,401	983	61	-	106	14,605	-	-	21,637	-	-	27,830	-	-
Off-balance sheet financial instruments	-	-	155	-	-	-	-	-	151	306	-	0.07	289	-	0.09	284	-	0.50
Total fair value	311,250	172,425	134,873	83,362	57,373	56,014	2,795	647	1,896	820,635	0.76	1.10	831,919	1.46	1.14	815,689	1.53	1.15
Financial instruments, net																		
Exposure to interest rate fluctuations	(16,300)	9,125	13,518	(4,460)	7,417	2,634	7,491	1,039										
Accumulated exposure in the sector	(16,300)	(7,175)	6,343	1,883	9,300	11,934	19,425	20,464										

See notes on next page.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

Notes:

- (a) Excluding book balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments. The figures in the "No repayment date" column are the non-discounted book balances, including overdue balances in the amount of NIS 473 million.
- (b) Weighted average as per fair value of effective duration.
- (c) Including non-monetary assets shown in "No repayment date" column.
- (d) Duration less than 0.05 years.

General comments:

- (a) 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.
- (b) 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.
- (c) 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.
- (d) The effect of hedging transactions is included in total assets or total liabilities, as applicable.
- (e) 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 reaches 4.04 years, the duration of total liabilities reaches 3.65 years, and the internal rate of return (hereinafter – IRR) gap amounts to 0.70. The change in fair value on total assets is NIS 2,569 million and in total liabilities NIS 8 million.

Total Credit Risk to the Public by Economic Sector

Exhibit C

30 June 2014									
Overall credit risk (a)				Debts (b) and off-balance sheets credit risk (except for derivatives) (c)					
In respect of activity of borrowers in Israel	Total	Problematic (e)	Total ¹	¹ Of which:			Credit losses (d)		
							Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
				(NIS millions)					
Agriculture	2,225	96	2,221	1,872	96	47	(5)	(3)	(43)
Industry	28,347	2,182	27,560	18,610	2,176	627	(31)	(38)	(565)
Construction and real estate - construction	44,137	1,792	44,063	16,261	1,787	708	(74)	(97)	(405)
Construction and real estate - real estate activity	24,424	1,566	24,324	22,109	1,564	1,420	(120)	(32)	(580)
Electricity and water	3,699	-	3,107	2,824	-	-	(2)	-	(3)
Commerce	22,998	1,355	22,786	18,706	1,354	353	22	18	(372)
Hotels, catering services and food	2,695	143	2,680	2,386	143	130	5	-	(38)
Transport and storage	6,252	506	6,227	5,304	497	293	18	3	(98)
Communications and computer services	5,448	525	5,355	4,205	522	236	(41)	6	(170)
Financial services	24,141	69	19,118	10,836	56	51	116	(35)	(66)
Business and other services	8,253	141	8,208	6,435	141	106	2	5	(70)
Public and community services	7,699	47	7,650	6,308	47	16	(2)	(1)	(13)
Total commercial	180,318	8,422	173,299	115,856	8,383	3,987	(112)	(174)	(2,423)
Private individuals - housing loans	73,354	806	73,354	71,009	806	-	11	4	(487)
Private individuals - other	64,590	424	64,570	33,459	424	108	11	64	(400)
Total public	318,262	9,652	311,223	220,324	9,613	4,095	(90)	(106)	(3,310)
Banks in Israel	5,696	-	1,701	1,572	-	-	-	-	(1)
Government of Israel	29,838	-	293	293	-	-	-	-	-
Total activity in Israel	353,796	9,652	313,217	222,189	9,613	4,095	(90)	(106)	(3,311)

30 June 2014									
Overall credit risk (a)				Debts (b) and off-balance sheets credit risk (except for derivatives) (c)					
In respect of activity of borrowers abroad	Total	Problematic (e)	Total ¹	¹ Of which:			Credit losses (d)		
							Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
				(NIS millions)					
Agriculture	54	3	50	26	3	3	-	-	(1)
Industry	9,477	454	8,455	5,485	454	316	(1)	8	(219)
Construction and real estate - construction	10,203	694	9,859	7,363	694	658	8	20	(369)
Electricity and water	412	-	178	39	-	-	-	-	-
Commerce	7,342	143	7,299	4,875	143	136	(9)	49	(81)
Hotels, catering services and food	1,660	52	1,649	1,624	52	43	2	1	(14)
Transport and storage	369	25	260	253	25	25	-	-	(10)
Communications and computer services	569	-	328	199	-	-	-	-	(3)
Financial services	14,554	90	2,840	1,872	90	90	16	1	(52)
Business and other services	3,083	207	2,853	2,059	207	180	2	11	(107)
Public and community services	2,308	2	2,204	1,969	2	2	1	-	(17)
Total commercial	50,031	1,670	35,975	25,764	1,670	1,453	19	90	(873)
Private individuals - housing loans	1,151	51	1,151	1,151	51	30	(1)	1	(17)
Private individuals - other	1,111	28	1,102	933	28	28	1	29	(11)
Total public	52,293	1,749	38,228	27,848	1,749	1,511	19	120	(901)
Banks abroad	24,381	-	13,879	12,723	-	-	4	-	(5)
Governments abroad	2,543	-	272	190	-	-	-	-	-
Total activity abroad	79,217	1,749	52,379	40,761	1,749	1,511	23	120	(906)
Total	433,013	11,401	365,596	262,950	11,362	5,606	(67)	14	(4,217)

See notes on next page.

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

Exhibit C

- (a) 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 262,950, 46,157, 1,634, 11,708, 110,564 million respectively.
- (b) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.
- (d) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").
- (e) 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

30 June 2013									
In respect of activity of borrowers in Israel	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)					
	Total	Problematic (e)	Total ¹	¹ Of which:			Credit losses (d)		
							Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
(NIS millions)									
Agriculture	2,107	115	2,099	1,775	115	40	(4)	(2)	(39)
Industry	31,486	2,063	28,932	19,059	2,045	659	(8)	(11)	(530)
Construction and real estate - construction	41,516	967	41,373	15,003	967	648	(48)	(29)	(399)
Construction and real estate - real estate activity	26,395	1,865	26,329	23,745	1,865	1,587	(2)	(23)	(530)
Electricity and water	4,247	3	3,340	2,081	3	3	(3)	-	(3)
Commerce	22,505	1,150	21,921	17,997	1,146	598	(12)	74	(394)
Hotels, catering services and food	3,044	293	2,996	2,718	293	202	(13)	(10)	(25)
Transport and storage	5,805	835	5,712	4,826	823	343	3	5	(130)
Communications and computer services	5,944	156	5,630	4,493	152	59	(4)	-	(57)
Financial services	33,266	772	18,921	11,850	736	387	(46)	262	(207)
Business and other services	8,240	159	8,016	6,239	159	142	(4)	4	(171)
Public and community services	7,241	121	7,190	6,034	121	82	3	6	(7)
Total commercial	191,796	8,499	172,459	115,820	8,425	4,750	(138)	276	(2,492)
Private individuals - housing loans	67,181	787	67,181	65,358	787	-	46	11	(491)
Private individuals - other	59,949	420	59,928	30,140	420	80	72	48	(377)
Total public	318,926	9,706	299,568	211,318	9,632	4,830	(20)	335	(3,360)
Banks in Israel	7,555	-	2,256	1,473	-	-	1	-	(1)
Government of Israel	34,563	-	325	325	-	-	-	-	-
Total activity in Israel	361,044	9,706	302,149	213,116	9,632	4,830	(19)	335	(3,361)

30 June 2013									
In respect of activity of borrowers abroad	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)					
	Total	Problematic (e)	Total ¹	¹ Of which:			Credit losses (d)		
							Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
(NIS millions)									
Agriculture	72	10	55	29	10	8	-	-	(3)
Industry	10,183	438	8,898	5,888	435	254	16	11	(196)
Construction and real estate - construction	11,658	888	10,656	7,853	888	771	75	(11)	(408)
Electricity and water	437	-	193	30	-	-	-	-	-
Commerce	8,440	223	8,306	5,552	223	122	7	4	(110)
Hotels, catering services and food	2,063	70	2,061	1,923	70	61	12	11	(10)
Transport and storage	623	27	440	431	27	27	(1)	(1)	(13)
Communications and computer services	747	-	454	152	-	-	-	-	(2)
Financial services	16,849	150	4,184	3,335	150	132	(2)	2	(70)
Business and other services	3,297	166	3,167	2,231	166	166	64	6	(106)
Public and community services	1,836	2	1,708	1,336	2	1	3	-	(12)
Total commercial	56,205	1,974	40,122	28,760	1,971	1,542	174	22	(930)
Private individuals - housing loans	1,234	76	1,234	1,233	76	73	-	(1)	(20)
Private individuals - other	1,406	44	1,355	1,114	44	43	(1)	-	(41)
Total public	58,845	2,094	42,711	31,107	2,091	1,658	173	21	(991)
Banks abroad	29,847	-	11,434	10,660	-	-	3	5	(2)
Governments abroad	4,213	-	277	153	-	-	-	-	-
Total activity abroad	92,905	2,094	54,422	41,920	2,091	1,658	176	26	(993)
Total	453,949	11,800	356,571	255,036	11,723	6,488	157	361	(4,354)

See notes on next page.

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

Exhibit C

- (a) 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 255,036, 54,059, 1,973, 11, 901, 130,980 million respectively.
- (b) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.
- (d) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").
- (e) 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 (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)					
							Credit losses (d)		
							Expenses in	Net	Balance of
							respect	accounting	allowance
							of credit	write-offs	for credit
							losses		losses
In respect of activity of borrowers in Israel	Total	Problematic (e)	Total ¹	Debts (b)	Problematic (e)	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 (a)									
Debts (b) and off-balance sheets credit risk (except for derivatives) (c)									
Credit losses (d)									
Expenses in respect of credit losses									
Net accounting write-offs									
Balance of allowance for credit losses									
¹ Of which:									
In respect of activity of borrowers abroad	Total	Problematic (e)	Total ¹	Debts (b)	Problematic (e)	Impaired			
(NIS millions)									
Agriculture	62	4	57	48	4	4	(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	201	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)
Governments 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)

See notes on next page.

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

- (a) 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.
- (b) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.
- (d) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").
- (e) 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.

30 June 2014							
Balance sheet exposure (a)							
Cross-border balance sheet exposure				Balance sheet exposure of foreign offices of the banking corporation to local residents			
Country	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities	
	(NIS millions)						
United States	816	5,446	8,717	16,094	8,507	7,587	
United Kingdom	212	3,451	3,816	6,742	1,783	4,959	
France	-	1,408	524	-	-	-	
Switzerland	-	106	820	2,182	931	1,251	
Germany	-	1,027	1,288	-	-	-	
Belgium	312	956	138	-	-	-	
Italy	-	191	74	-	-	-	
Netherlands	-	657	1,542	-	-	-	
Others	325	2,323	5,101	1,456	664	792	
Total exposure to foreign countries	1,665	15,565	22,020	26,474	11,885	14,589	
Total exposure to LDC countries	153	865	1,254	1,373	629	744	
Total exposure to GIIPS countries (d)	-	192	674	-	-	-	

Balance sheet exposure				Off-balance sheet exposure (a) (b)			
				Cross-border balance sheet exposure			
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	Repayment period	
	(NIS millions)					Up to one year	Over one year
United States	22,566	524	379	4,997	-	5,471	9,508
United Kingdom	12,438	495	429	2,585	6	3,550	3,929
France	1,932	8	8	910	-	662	1,270
Switzerland	2,177	1	1	400	-	863	63
Germany	2,315	2	2	355	-	1,670	645
Belgium	1,406	-	-	82	-	1,175	231
Italy	265	-	-	43	-	85	180
Netherlands	2,199	64	64	179	-	952	1,247
Others	8,541	475	443	1,240	-	5,084	2,665
Total exposure to foreign countries	53,839	1,569	1,326	10,791	6	19,512	19,738
Total exposure to LDC countries	3,016	416	384	887	-	2,004	268
Total exposure to GIIPS countries (d)	866	-	-	78	-	494	372

See notes on page 139.

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).

30 June 2013						
Balance sheet exposure (a)						
Country	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
(NIS millions)						
United States	2,336	3,566	10,950	17,030	9,534	7,496
United Kingdom	151	3,670	3,026	6,655	2,007	4,648
France	125	1,844	1,047	-	-	-
Switzerland	-	408	916	2,615	615	2,000
Germany	1	2,267	1,884	-	-	-
Belgium	391	295	134	-	-	-
Italy	-	265	97	-	-	-
Netherlands	-	826	1,619	-	-	-
Others	310	2,374	2,380	1,920	865	1,055
Total exposure to foreign countries	3,314	15,515	22,053	28,220	13,021	15,199
Total exposure to LDC countries	140	540	1,125	1,767	843	924
Total exposure to GIIPS countries (d)	-	309	222	-	-	-

Balance sheet exposure				Off-balance sheet exposure (a) (b)			
Country	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure (e)	Of which: problematic off-balance sheet credit risk	Cross-border balance sheet exposure	
						Repayment period	
						Up to one year	Over one year
(NIS millions)							
United States	24,348	587	355	8,972	18	5,308	11,544
United Kingdom	11,495	648	499	5,945	-	2,624	4,223
France	3,016	8	1	1,805	-	993	2,023
Switzerland	3,324	26	26	972	-	962	362
Germany	4,152	3	3	223	-	2,369	1,783
Belgium	820	-	-	199	-	384	436
Italy	362	1	1	31	-	176	186
Netherlands	2,445	49	49	153	-	1,403	1,042
Others	6,119	525	493	1,454	-	3,829	1,235
Total exposure to foreign countries	56,081	1,847	1,427	19,754	18	18,048	22,834
Total exposure to LDC countries	2,729	521	489	1,121	-	1,609	196
Total exposure to GIIPS countries (d)	531	2	2	37	-	206	325

See notes on page 139.

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 (a)						
Country	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	(NIS millions)					
United States	3,092	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 (d)	-	278	491	-	-	-

Balance sheet exposure				Off-balance sheet exposure (a) (b)			
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 (d)	769	-	-	70	-	462	307

See notes on next page.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Notes:

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

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 30 June 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 1,936 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 30 June 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.

20 August 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 30 June 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.

20 August 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 30 June 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.

20 August 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 30 June, 2014 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the six month and three month periods ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information for this interim periods based on our review.

We did not review the condensed financial information for the interim periods of certain consolidated companies, whose assets included on consolidation constitute approximately 1.6% of total consolidated assets at 30 June, 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 six month and three month periods ended on that date. The condensed financial information for the interim periods 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 3A 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.E paragraph 2 concerning investigations against the Group regarding its activities with US customers.

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

Somekh Chaikin

Certified Public Accountants (Isr.)

Kost Forer Gabbay & Kasierer

Certified Public Accountants (Isr.)

20 August 2014

Condensed Consolidated Balance Sheet as at 30 June 2014

		30 June 2014	30 June 2013	31 December 2013
		(Unaudited)		(Audited)
	Note	(NIS millions)		
Assets				
Cash and deposits with banks		49,902	42,754	44,351
Securities	2	49,713	57,580	63,735
Securities borrowed or purchased under agreements to resell		1,634	1,973	1,360
Credit to the public	3	248,172	242,425	244,757
Allowance for credit losses	3	(3,787)	(3,942)	(3,883)
Credit to the public, net		244,385	238,483	240,874
Credit to governments		483	478	558
Investments in companies included on equity basis		1,641	1,978	1,689
Buildings and equipment		3,625	3,639	3,638
Intangible assets and goodwill		85	182	99
Assets in respect of derivative instruments	7	11,860	11,915	13,054
Other assets		5,249	4,732	5,002
Total assets		368,577	363,714	374,360
Liabilities and equity				
Deposits of the public	3A	279,861	275,448	286,003
Deposits from banks		5,201	4,245	4,310
Deposits from governments		359	455	397
Securities lent or sold under agreements to repurchase		747	1,327	624
Bonds, debentures and subordinated notes		24,509	27,587	25,441
Liabilities in respect of derivative instruments	7	12,153	12,656	13,487
Other liabilities		18,121	16,101	17,333
Total liabilities		340,951	337,819	347,595
Non-controlling interests		323	318	340
Equity attributable to shareholders of the banking corporation		27,303	25,577	26,425
Total equity	4	27,626	25,895	26,765
Total liabilities and equity		368,577	363,714	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: 20 August 2014

Condensed Consolidated Statement of Profit and Loss for the periods ended 30 June 2014

		For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
		2014	2013	2014	2013	2013
		(Unaudited)				(Audited)
	Note	(NIS millions)				
Interest income	9	2,812	3,191	5,013	6,054	12,134
Interest expenses	9	907	1,352	1,351	2,453	4,777
Net interest income		1,905	1,839	3,662	3,601	7,357
Expenses (income) in respect of credit losses	3	(16)	84	(67)	157	268
Net interest income, after expenses in respect of credit losses		1,921	1,755	3,729	3,444	7,089
Non-interest income						
Non-interest financing income	10	172	212	495	623	1,127
Commissions		1,040	1,029	2,080	2,054	4,188
Other income		38	5	49	38	202
Total non-interest income		1,250	1,246	2,624	2,715	5,517
Operating and other expenses						
Salaries and related expenses		1,188	1,215	2,500	2,497	5,174
Maintenance and depreciation of buildings and equipment		436	489	878	938	1,833
Amortization of intangible assets and goodwill		11	3	14	6	88
Other expenses		880	472	1,247	795	1,838
Total operating and other expenses		2,515	2,179	4,639	4,236	8,933
Profit before taxes		656	822	1,714	1,923	3,673
Provision for taxes on the profit		369	284	754	747	1,391
Profit after taxes		287	538	960	1,176	2,282
Share of the banking corporation in losses after tax of companies included on equity basis		(14) (a)	(54)	(51) (a)	(111)	(293)
Net profit:						
Before attribution to non-controlling interests		273	484	909	1,065	1,989
Attributable to non-controlling interests		17	(10)	6	(21)	(42)
Attributable to shareholders of the banking corporation		290	474	915	1,044	1,947
Basic and diluted earnings per share (NIS)						
Net profit attributable to shareholders of the banking corporation		0.20	0.32	0.62	0.71	1.32

(a) Does not include the effect of the business results of the Israel Corporation for the three month period ended 30 June 2014. See Note 1.B.

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

Condensed Statement of Comprehensive Income for the periods ended 30 June 2014

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)				(Audited)
	(NIS millions)				
Net profit before attribution to non-controlling interests	273	484	909	1,065	1,989
Less net profit (loss) attributed to non-controlling interests	(17)	10	(6)	21	42
Net profit attributed to shareholders of the Bank	290	474	915	1,044	1,947
Other comprehensive income (loss) before taxes:					
Adjustments for showing securities available for sale at fair value, net	63	(225)	55	(452)	(518)
Adjustments for translation of financial statements, net (a), after hedges (b)	(18)	(31)	(8)	(50)	(115)
Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis	12 (c)	(22)	(3) (c)	(26)	11
Other comprehensive income (loss) before taxes	57	(278)	44	(528)	(622)
Relevant tax effect	(42)	77	(75)	115	130
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	15	(201)	(31)	(413)	(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	16	(201)	(31)	(409)	(489)
Comprehensive income before attribution to non-controlling interests	288	283	878	652	1,497
Less comprehensive income (loss) attributed to non-controlling interests	(18)	10	(6)	17	39
Comprehensive income attributed to shareholders of the Bank	306	273	884	635	1,458

- (a) Adjustments for translation of financial statements of foreign operations whose functional currency is different from the functional currency of the Bank.
- (b) Hedges – profits (losses) net in respect of hedging a net investment in foreign currency.
- (c) Does not include the effect of the business results of the Israel Corporation for the three month period ended 30 June 2014. See Note 1.B.

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

Condensed Consolidated Statement of Changes in Equity for the period ended 30 June 2014

	For the three months ended 30 June 2014 (Unaudited)									
	Capital reserves									
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	(NIS millions)									
Balance at 31 March 2014	7,059	1,129	33	8,221	(78)	18,902	(43)	27,002	341	27,343
Net profit for the period	-	-	-	-	-	290	-	290	(17)	273
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	(6)	-	(6)	-	(6)
Other comprehensive loss, net, after effect of taxes	-	-	-	-	16	-	-	16	(1)	15
Changes in non-controlling interests	-	-	-	-	-	-	1	1	-	1
Balance at the end of the period	7,059	1,129	33	8,221	(62)	19,186	(42)	27,303	323	27,626

	For the three months ended 30 June 2013 (Unaudited)									
	Capital reserves									
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	(NIS millions)									
Balance at 31 March 2013	7,059	1,129	23	8,211	250	16,866	(43)	25,284	308	25,592
Net profit for the period	-	-	-	-	-	474	-	474	10	484
Adjustments in respect of companies included on equity basis	-	-	-	-	-	16	-	16	-	16
Adjustments in respect of companies included on equity basis, net	-	-	-	-	(201)	-	-	(201)	-	(201)
Changes in non-controlling interests	-	-	-	-	-	4	-	4	-	4
Balance at the end of the period	7,059	1,129	23	8,211	49	17,360	(43)	25,577	318	25,895

(a) 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 Changes in Equity (cont'd) for the period ended 30 June 2014

	For the six months ended 30 June 2014 (Unaudited)									
	Capital reserves			Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	Share capital	Premium	Share-based payment transactions and others (a)							
	(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	-	-	-	-	-	915	-	915	(6)	909
Dividend paid by consolidated companies	-	-	-	-	-	-	-	-	(10)	(10)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	(7)	-	(7)	-	(7)
Other comprehensive loss, net, after effect of taxes	-	-	-	-	(31)	-	-	(31)	-	(31)
Changes in non-controlling interests	-	-	-	-	-	-	1	1	(1)	-
Balance at the end of the period	7,059	1,129	33	8,221	(62)	19,186	(42)	27,303	323	27,626
	For the six months ended 30 June 2013 (Unaudited)									
	Capital reserves			Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	Share capital	Premium	Share-based payment transactions and others (a)							
	(NIS millions)									
Balance at 31 December 2012 (Audited)	7,059	1,129	23	8,211	458	16,296	(44)	24,921	307	25,228
Net profit for the period	-	-	-	-	-	1,044	-	1,044	21	1,065
Dividend paid by consolidated companies	-	-	-	-	-	-	-	-	(6)	(6)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	16	-	16	-	16
Other comprehensive loss, net, after effect of taxes	-	-	-	-	(409)	-	-	(409)	(4)	(413)
Changes in non-controlling interests	-	-	-	-	-	4	1	5	-	5
Balance at the end of the period	7,059	1,129	23	8,211	49	17,360	(43)	25,577	318	25,895

(a) 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 Changes in Equity (cont'd)
for the period ended 30 June 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 (a)							
	(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

(a) 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 30 June 2014

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)				(Audited)
	(NIS millions)				
Cash flows generated by operating activity					
Net profit for the period	273	484	909	1,065	1,989
Adjustments:					
Group share in undistributed profits of companies included on equity basis (a)	17	74	73	140	340
Depreciation of buildings and equipment (including impairment)	181	225	362	410	768
Amortization	11	3	14	6	88
Expenses (income) in respect of credit losses	(16)	84	(67)	157	268
Provision for impairment in assets transferred to Group ownership	(2)	-	(6)	-	1
Net gains on sale of securities available for sale (including impairment)	(66)	(107)	(275)	(440)	(747)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(76)	16	(217)	48	(35)
Gain on realization of investment in companies included on equity basis	-	(17)	-	(17)	(15)
Loss (gain) on realization of buildings and equipment	(25)	1	(26)	(14)	(25)
Expenses deriving from share-based payment transactions	-	-	-	-	10
Deferred taxes , net	29	3	19	(26)	(127)
Severance pay and pension - increase in excess of provision over amount funded	33	75	43	102	132
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	(124)	(116)	(183)	(54)	(140)
Interest not yet paid for debentures and subordinated notes	355	316	480	465	1,428
Effect of exchange-rate differences on balances of cash and cash equivalents	30	48	15	400	653
Other, net	-	2	(2)	1	(2)
Net change in current assets:	-	-	-	-	-
Deposits in banks	(2,430)	(497)	(2,619)	(374)	1,112
Credit to the public	(3,524)	155	(3,961)	2,275	(893)
Credit to governments	4	(55)	75	(36)	(118)
Securities borrowed or purchased under agreements to resell	(264)	(1,119)	(274)	(538)	75
Assets in respect of derivative instruments	454	(78)	1,197	(442)	(1,595)
Securities held for trading	4	947	633	1,813	652
Other assets	(33)	(68)	(154)	33	279
Net change in current liabilities:	-	-	-	-	-
Deposits from banks	846	(3,330)	894	208	283
Deposits of the public	(2,519)	(3,216)	(5,937)	(13,134)	(1,986)
Deposits from governments	(73)	(16)	(36)	10	(38)
Securities lent or sold under agreements to repurchase	207	593	123	322	(381)
Liabilities in respect of derivative instruments	(727)	(152)	(1,372)	(1)	856
Other liabilities	162	49	594	336	1,158
Net cash generated by operating activity (for operating activity)	(7,273)	(5,696)	(9,698)	(7,285)	3,990

(a) Less dividend received, not including effect of the results of the Israel Corporation for the three month period ended 30 June 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 30 June 2014

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)				(Audited)
	(NIS millions)				
Cash flows generated by investment activity					
Acquisition of securities available for sale	(4,039)	(18,803)	(12,115)	(31,209)	(61,350)
Proceeds from sale of securities available for sale	5,001	8,341	13,816	17,034	33,528
Proceeds from redemption of securities available for sale	10,304	4,957	12,816	10,654	19,785
Acquisition of shares in companies included on equity basis	(49)	(36)	(49)	(66)	(67)
Proceeds from realization of investment in companies included on equity basis	-	72	-	72	73
Acquisition of buildings and equipment	(181)	(172)	(365)	(354)	(698)
Proceeds from realization of buildings and equipment	22	-	22	17	39
Proceeds from realization of assets transferred to Group ownership	-	1	3	3	3
Net cash for investment activity	11,058	(5,640)	14,128	(3,849)	(8,687)
Cash flows generated by financing activity					
Redemption of debentures and subordinated notes	(330)	(271)	(1,412)	(403)	(3,512)
Additional purchase of shares in consolidated companies	-	-	(1)	-	-
Dividend paid to minority shareholders of consolidated companies	-	-	(10)	(6)	(6)
Loans to employees for purchase of the Bank's shares	1	-	1	1	1
Net cash for financing activity	(329)	(271)	(1,422)	(408)	(3,517)
Decrease in cash and cash equivalents	3,456	(11,607)	3,008	(11,542)	(8,214)
Balance of cash and cash equivalents at beginning of period	42,344	51,357	42,777	51,644	51,644
Effect of movements in exchange rates on cash balances and cash equivalents	(30)	(48)	(15)	(400)	(653)
Balance of cash and cash equivalents at end of period	45,770	39,702	45,770	39,702	42,777

Interest and taxes paid and/or received and dividends received

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)				(Audited)
	(NIS millions)				
Interest received	2,423	3,086	5,192	6,356	12,474
Interest paid	(634)	(1,305)	(1,470)	(2,574)	(5,360)
Dividends received	7	35	28	49	75
Taxes paid on income	(403)	(452)	(818)	(545)	(1,238)

**Condensed Consolidated Statement of Cash Flows (cont'd)
for the periods ended 30 June 2014****Appendix A – Investment and financing activities not in cash in the reporting period:****For the six months ended 30 June 2014:**

- (1) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 15 million, in respect of the settlement of loans.

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 30 June 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 20 August 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

As a result of the instructions of 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 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, in the second quarter of 2014, the effect of the results of the Israel Corporation for the first quarter of 2014 was recorded in the statements of the Bank, and the effect of the results of the Israel Corporation for the second quarter will be included in the statements of the Bank for the third quarter of 2014. This reporting gap is permanent.

Below is the effect of the reporting gap on the Bank's results for the second quarter and half of 2014 and prior periods, which have been reported in the past, had the Bank, at the initial implementation of the said accounting treatment, 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:

	For the three months ended		For the six months ended		31 December
	30 June 2014	30 June 2013	30 June 2014	30 June 2013	2013
	(NIS millions)		(NIS millions)		
Net income as reported	290	474	915	1,044	1,947
Amendment in respect of the losses of a company included on equity basis with a gap of one quarter	-	(4)	(180)	(146)	(32)
Net profit – pro-forma	290(a)	470(b)	735(a)	898(b)	1,915(c)

(a) Results of the Israel Corporation included for the three month period ended 31 March 2014.

(b) Results of the Israel Corporation included for the three month period ended 31 March 2013.

(c) 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.

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 etc. 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 and six month period ended 30 June 2014:

For the three months ended 30 June 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	1,905	(40)	1,865
Commissions	1,040	46	1,086
Net profit (after tax)	290	4	294

For the six months ended 30 June 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	3,662	(91)	3,571
Commissions	2,080	105	2,185
Net profit (after tax)	915	9	924

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. A new disclosure requirement in the note on accumulated other comprehensive income about the amounts reclassified out of accumulated other comprehensive income.
- b. 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 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. The circular provides that this treatment, according to which the liabilities in respect of employee rights will be discounted at the market yields of government bonds in Israel, is appropriate for a situation in which there is no market in Israel in which there is no deep market of high-quality corporate debentures. The circular further provides that if it is determined that there is a market in Israel in which there is a deep market of high-quality corporate debentures, the Bank of Israel will reconsider the directive to make use of government bond market yields.
- 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.

The Israel Securities Authority intends to examine the question of the existence of a deep market in high-quality government bonds in Israel and the way it is implemented in accordance with the IFRS principles of such possible determination, and on completing the examination, the Authority will publish its position on these matters. The Banking Supervision Department is also currently

considering the issue of determining the discounting rate to be employed in computing the liability for employee rights in the banking system.

Pursuant to the circular published by the Banking Supervision Department, the Bank is required to provide disclosure in the financial statements of at least the estimate of the quantitative effect on the shareholders' equity of the calculation of the liabilities for employees' rights due to the change in the discounting rate. According to the Bank's assessment, If the standard were applied on 30 June 2014 in accordance with the present interest environment, the expected effect on the shareholders' equity of the Bank as of 30 June 2014 in respect of the impact of the change in the discounting rate would be a reduction of some NIS 3.5 billion, after the effect of tax (NIS 5.5 billion before the effect of tax), based on the market yield of government bonds at the reporting date. If the liabilities were discounted on the basis of the market yields of AA-rated corporate debentures in Israel at the reporting date, a treatment which is consistent with the existence of a "deep market" for high-quality corporate debentures in Israel, the expected impact on the Bank's shareholders' equity as of 30 June 2014 is a reduction of NIS 1.4 billion after the effect of tax (NIS 2.2 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 subsequent 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. One of those possible effects is the method and period for accruing liabilities. From preliminary estimates and interpretations, it appears that the effect of change in the method of accruing liabilities is liable 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 increase 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 until 2018.

For further details, see pages 44-50 in the 2013 Financial Report.

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 of 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 30 June 2014 (Unaudited)				
	Balance sheet amount (NIS millions)	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (a)
			Profits	Losses	
1. Securities available for sale:					
Debentures -					
Government of Israel	20,518	20,274	249	(5)	20,518
Foreign governments	1,713	1,705	10	(2)	1,713
Financial institutions in Israel	101	93	8	-	101
Financial institutions abroad	4,180	4,095	97	(12)	4,180
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	6,647	6,712	29	(94)	6,647
Others in Israel	728	688	42	(2)	728
Others abroad	2,319	2,287	40	(8)	2,319
	36,206	35,854	475	(123)	36,206
Shares and mutual funds (b)	3,051	3,031	61	(41)	3,051
Total securities available for sale	39,257	38,885	536 (c)	(164) (c)	39,257
	As at 30 June 2014 (Unaudited)				
	Balance sheet amount (NIS millions)	Amortized cost (in shares - cost)	Unrealized	Unrealized	Fair value (a)
			profits from adjustments to fair value	losses from adjustments to fair value	
2. Securities held for trading:					
Debentures -					
Government of Israel	7,393	7,311	83	(1)	7,393
Foreign governments	558	546	12	-	558
Financial institutions in Israel	399	397	2	-	399
Financial institutions abroad	153	148	5	-	153
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	515	512	4	(1)	515
Others in Israel	385	379	7	(1)	385
Others abroad	548	537	14	(3)	548
	9,951	9,830	127	(6)	9,951
Shares and mutual funds	505	433	72	-	505
Total securities held for trading	10,456	10,263	199 (d)	(6) (d)	10,456
Total securities (e) (f)	49,713	49,148	735	(170)	49,713

See notes on page 162.

Note 2 - Securities (cont'd)

	As at 30 June 2013 (Unaudited)				
	Balance sheet amount (NIS millions)	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (a)
			Profits	Losses	
1. Securities available for sale:					
Debentures -					
Government of Israel	25,630	25,457	196	(23)	25,630
Foreign governments	3,578	3,581	4	(7)	3,578
Financial institutions in Israel	129	127	4	(2)	129
Financial institutions abroad	5,561	5,537	71	(47)	5,561
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	6,972	7,028	47	(103)	6,972
Others in Israel	1,052	1,018	35	(1)	1,052
Others abroad	2,102	2,108	24	(30)	2,102
	45,024	44,856	381	(213)	45,024
Shares and mutual funds (b)	2,924	2,742	263	(81)	2,924
Total securities available for sale	47,948	47,598	644 (c)	(294) (c)	47,948
	As at 30 June 2013 (Unaudited)				
	Balance sheet amount (NIS millions)	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
2. Securities held for trading:					
Debentures -					
Government of Israel	6,638	6,558	95	(15)	6,638
Foreign governments	357	353	4	-	357
Financial institutions in Israel	231	229	2	-	231
Financial institutions abroad	169	167	3	(1)	169
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	380	384	4	(8)	380
Others in Israel	585	577	9	(1)	585
Others abroad	677	654	31	(8)	677
	9,037	8,922	148	(33)	9,037
Shares and mutual funds	595	557	39	(1)	595
Total securities held for trading	9,632	9,479	187 (d)	(34) (d)	9,632
Total securities (e) (f)	57,580	57,077	831	(328)	57,580

See notes on page 162.

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 (a)
			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 (b)	2,828	2,744	156	(72)	2,828
Total securities available for sale	52,861	52,598	557(c)	(294)(c)	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 (a)
	(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 (d)	(37)(d)	10,874
Total securities (e) (f)	63,735	63,355	711	(331)	63,735

See notes on next page.

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

- (a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which would be received for the sale of a large volume of securities.
- (b) The balance sheet figure includes NIS 1,445 million with respect to shares which have no readily available fair value, which are shown at cost (30 June 2013 - NIS 1,204 million, 31 December 2013 - NIS 1,363 million).
- (c) Regarding securities available for sale, other comprehensive income (loss) – unrealized profits (losses) are included in equity under "Other comprehensive income (loss), net, after the effect of taxes", except for securities designated as fair value hedges.
- (d) Charged to the profit and loss statement, but not yet realized.
- (e) Of which a balance sheet value of NIS 27 million (30 June 2013 - NIS 28 million, 31 December 2013 - NIS 27 million), in respect of bonds of companies included on equity basis.
- (f) Including impaired bonds of NIS 22 million (30 June 2013 - NIS 33 million, 31 December 2013 - NIS 26 million).

General notes:

Securities lent in the amount of NIS 179 million (31 December 2013 - NIS 571 million, 30 June 2013 - NIS 779 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 1,508 million (30 June 2013 – NIS 1,527 million, 31 December 2013 – NIS 1,458 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 30 June 2014 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) (a)		Fair value
			Profits	Losses	
	(NIS millions)				
3. Debentures available for sale					
Pass-through securities					
Securities guaranteed by GNMA	245	245	1	(1)	245
Securities issued by FNMA and FHLMC	1,544	1,581	-	(37)	1,544
Total	1,789	1,826	1	(38)	1,789
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,697	2,740	3	(46)	2,697
Other mortgage-backed securities	329	325	4	-	329
Total	3,026	3,065	7	(46)	3,026
Asset-backed securities (ABS)					
Credit card receivables	83	83	-	-	83
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	1,743	1,732	21	(10)	1,743
Total	1,832	1,821	21	(10)	1,832
Total mortgage-backed and asset-backed debentures available for sale					
	6,647	6,712	29	(94)	6,647

(a) 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 30 June 2014 (Unaudited)				
	Balance sheet amount	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)				
4. Debentures held for trading					
Pass-through securities					
Other securities	251	251	-	-	251
Total	251	251	-	-	251
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	10	10	-	-	10
Other mortgage-backed securities	72	71	1	-	72
Total	82	81	1	-	82
Asset-backed securities (ABS)					
Lines of credit for any purpose secured by dwelling	1	1	-	-	1
Credit for purchase of vehicle	58	58	1	(1)	58
Other credit to private persons	16	16	-	-	16
Credit not to private persons	7	7	-	-	7
Others	100	98	2	-	100
Total	182	180	3	(1)	182
Total mortgage-backed and asset-backed debentures held for trading	515	512	4	(1)	515

(a) 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 30 June 2013 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) (a)		Fair value
			Profits	Losses	
	(NIS millions)				
3. Debentures available for sale					
Pass-through securities					
Securities guaranteed by GNMA	270	271	1	(2)	270
Securities issued by FNMA and FHLMC	1,758	1,818	-	(60)	1,758
Total	2,028	2,089	1	(62)	2,028
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,809	2,824	10	(25)	2,809
Other mortgage-backed securities	364	365	-	(1)	364
Total	3,173	3,189	10	(26)	3,173
Asset-backed securities (ABS)					
Credit card receivables	87	89	-	(2)	87
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	4	4	-	-	4
Credit not to private persons	1	1	-	-	1
CLO-type debentures	1,677	1,654	36	(13)	1,677
Total	1,771	1,750	36	(15)	1,771
Total mortgage-backed and asset-backed debentures available for sale	6,972	7,028	47	(103)	6,972

(a) 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 30 June 2013 (Unaudited)				
	Balance sheet amount	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	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	15	14	1	-	15
Other mortgage-backed securities	41	43	-	(2)	41
Total	56	57	1	(2)	56
Asset-backed securities (ABS)					
Credit card receivables	35	35	-	-	35
Lines of credit for any purpose secured by dwelling	3	2	1	-	3
Credit for purchase of vehicle	170	171	2	(3)	170
Other credit to private persons	23	23	-	-	23
Credit not to private persons	1	1	-	-	1
CDO-type debentures	-	-	-	-	-
Others	88	91	-	(3)	88
Total	320	323	3	(6)	320
Total mortgage-backed and asset-backed debentures held for trading	380	384	4	(8)	380

(a) 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) (a)		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 securities (including CMO and STRIPPED MBS)					
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
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

(a) 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 (a)	Unrealized losses from adjustments to fair value (a)	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 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

(a) 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

	30 June 2014 (Unaudited)									
	Less than 12 months					12 months and above				
	Unrealized losses					Unrealized losses				
	Fair value	0-20%	20%-35%	More than 35%	Total	Fair value	0-20%	20%-35%	More than 35%	Total
	(NIS millions)									
Bonds										
Government of Israel	870	-	-	-	-	122	5	-	-	5
Foreign governments	381	-	-	-	-	106	2	-	-	2
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	138	4	-	-	4	477	8	-	-	8
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	1,567	13	-	-	13	3,222	81	-	-	81
Others in Israel	29	2	-	-	2	-	-	-	-	-
Others abroad	17	-	-	-	-	1,324	8	-	-	8
Shares	1	1	-	-	1	512	40	-	-	40
Total securities available for sale	3,003	20	-	-	20	5,763	144	-	-	144
	31 June 2013 (Unaudited)									
	Less than 12 months					12 months and above				
	Unrealized losses					Unrealized losses				
	Fair value	0-20%	20%-35%	More than 35%	Total	Fair value	0-20%	20%-35%	More than 35%	Total
	(NIS millions)									
Bonds										
Government of Israel	3,663	23	-	-	23	75	-	-	-	-
Foreign governments	2,960	6	-	-	6	54	1	-	-	1
Financial institutions in Israel	6	-	-	-	-	8	2	-	-	2
Financial institutions abroad	1,407	21	-	-	21	1,121	26	-	-	26
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	4,227	96	-	-	96	397	7	-	-	7
Others in Israel	255	-	-	-	-	6	1	-	-	1
Others abroad	1,178	25	-	-	25	476	5	-	-	5
Shares	187	77	-	4	81	-	-	-	-	-
Total securities available for sale	13,883	248	-	4	252	2,137	42	-	-	42

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**

	30 June 2014 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
		Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	Fair value					
	(NIS millions)					
Mortgage-backed securities (MBS)	47	(1)	1,529	(37)	1,576	(38)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	703	(6)	1,343	(40)	2,046	(46)
Asset-backed securities (ABS)	817	(6)	348	(4)	1,165	(10)
Total	1,567	(13)	3,220	(81)	4,787	(94)
	30 June 2013 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
		Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	Fair value					
	(NIS millions)					
Mortgage-backed securities (MBS)	1,825	(62)	40	-	1,865	(62)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	1,883	(26)	114	-	1,997	(26)
Asset-backed securities (ABS)	519	(8)	243	(7)	762	(15)
Total	4,227	(96)	397	(7)	4,624	(103)
	31 December 2013 (Audited)					
	Up to 12 months		Over 12 months		Total	
		Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	Fair value					
	(NIS millions)					
Additional details of asset-backed securities available for sale						
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. Debts^(a) and off-balance sheet credit instruments****Allowance for credit losses****1. Change in balance of allowance for credit losses**

	For the three months ended 30 June 2014 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and	
	Commercial	Residential	Other private	Total	govern-ments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of the reporting period	3,329	495	426	4,250	5	4,255
Expenses (income) in respect of credit losses	(74)	10	47	(17)	1	(16)
Accounting write-offs	21	(1)	(154)	(134)	-	(134)
Collection of debts written off in previous years	23	-	91	114	-	114
Net accounting write-offs	44	(1)	(63)	(20)	-	(20)
Adjustments from translation of financial statements	(3)	-	1	(2)	-	(2)
Balance of allowance for credit losses at end of the reporting period ¹	3,296	504	411	4,211	6	4,217
¹ Of which: in respect of off-balance sheet credit instruments	390	-	34	424	-	424

	For the three months ended 30 June 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and	
	Commercial	Residential	Other private	Total	govern-ments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of reporting period	3,623 (b)	513 (b)	380 (b)	4,516	3	4,519
Expenses in respect of credit losses	45 (b)	(5) (b)	42 (b)	82	2	84
Accounting write-offs	(266)	-	(104)	(370)	(4)	(374)
Collection of debts written off in previous years	23	-	100	123	-	123
Net accounting write-offs	(243)	-	(4)	(247)	(4)	(251)
Adjustments from translation of financial statements	(3)	3	-	-	2	2
Balance of allowance for credit losses at end of the reporting period ¹	3,422	511	418	4,351	3	4,354
¹ Of which: in respect of off-balance sheet credit instruments	375	-	34	409	-	409

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

(b) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts^(a) and off-balance sheet credit instruments (cont'd)**
Allowance for credit losses**1. Change in balance of allowance for credit losses (cont'd)**

For the six months ended 30 June 2014 (Unaudited)						
Allowance for credit losses						
Credit to the public				Banks and		
		Other		govern-		
Commercial	Residential	private	Total	ments	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	(93)	10	12	(71)	4	(67)
Accounting write-offs	40	(5)	(275)	(240)	-	(240)
Collection of debts written off in previous years	44	-	182	226	-	226
Net accounting write-offs	84	(5)	(93)	(14)	-	(14)
Adjustments from translation of financial statements	4	1	(4)	1	-	1
Balance of allowance for credit losses at end of the reporting period ²	3,296	504	411	4,211	6	4,217
² Of which: in respect of off-balance sheet credit instruments	390	-	34	424	-	424

For the six months ended 30 June 2013 (Unaudited)						
Allowance for credit losses						
Credit to the public				Banks and		
		Other		govern-		
Commercial	Residential	private	Total	ments	Total	
(NIS millions)						
Balance of allowance for credit losses at beginning of reporting period	3,691	475	395	4,561	4	4,565
Expenses in respect of credit losses	36	46	71	153	4	157
Accounting write-offs	(338)	(10)	(228)	(576)	(5)	(581)
Collection of debts written off in previous years	40	-	180	220	-	220
Net accounting write-offs	(298)	(10)	(48)	(356)	(5)	(361)
Adjustments from translation of financial statements	(7)	-	-	(7)	-	(7)
Balance of allowance for credit losses at end of the reporting period ²	3,422	511	418	4,351	3	4,354
² Of which: in respect of off-balance sheet credit instruments	375	-	34	409	-	409

(a) 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)**A. Debts^(a) and off-balance sheet credit instruments (cont'd)****2. Additional information on the method of calculating the credit loss allowance in respect of debts^(a) and on debts^(a) on which it was calculated**

	30 June 2014 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and	
	Commercial	Residential	Other private	Total	govern-ments	Total
	(NIS millions)					
Recorded debt balance of debts^a						
Examined on an individual basis	109,879	45	1,681	111,605	12,749	124,354
Examined on a collective basis ³	31,741	72,115	32,711	136,567	2,029	138,596
³ Of which: the allowance was calculated by extent of arrears	-	70,995	-	70,995	-	70,995
Total debts ¹	141,620	72,160	34,392	248,172	14,778	262,950
Allowance for credit losses for debts^a:						
Examined on an individual basis	2,505	13	60	2,578	6	2,584
Examined on a collective basis ⁴	401	491	317	1,209	-	1,209
⁴ Of which the allowance was calculated by extent of arrears (b)	-	486	-	486	-	486
Total allowance for credit losses	2,906	504	377	3,787	6	3,793
	30 June 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and	
	Commercial	Residential	Other private	Total	govern-ments	Total
	(NIS millions)					
Recorded debt balance of debts^a						
Examined on an individual basis	112,661	73	1,843	114,577	10,921 (c)	125,498
Examined on a collective basis ³	31,919	66,518	29,411	127,848	1,690	129,538
³ Of which: the allowance was calculated by extent of arrears	-	65,350	-	65,350	-	65,350
Total debts ¹	144,580	66,591	31,254	242,425	12,611	255,036
Allowance for credit losses for debts^a:				-	-	-
Examined on an individual basis	2,711	15	75	2,801	3	2,804
Examined on a collective basis ⁴	336	496	309	1,141	-	1,141
⁴ Of which the allowance was calculated by extent of arrears (b)	-	491	-	491	-	491
Total allowance for credit losses	3,047	511	384	3,942	3	3,945

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

(b) 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 285 million (30 June 2013 – NIS 277 million).

(c) Restated.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts^a and off-balance sheet credit instruments (cont'd)****2. Additional information on the method of calculating the credit loss allowance in respect of debts^(a) and on debts^(a) 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	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts^a						
Examined on an individual basis	109,908	49	1,709	111,666	12,809	124,475
Examined on a collective basis ³	32,564	69,741	30,786	133,091	2,453	135,544
³ Of which: the allowance was calculated by extent of arrears	-	68,581	-	68,581	-	68,581
Total debts ^a	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 ⁴	268	483	370	1,121	-	1,121
⁴ Of which the allowance was calculated by extent of arrears (b)	-	480	-	480	-	480
Total allowance for credit losses	2,928	498	457	3,883	2	3,885

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

1. Credit quality and arrears

30 June 2014 (Unaudited)						
	Problem debts (b)				Unimpaired debts - additional information	
	Non problematic (NIS millions)	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	15,034	601	626	16,261	6	18
Construction & real estate - real estate activities	20,578	118	1,413	22,109	5	17
Financial services	10,782	6	48	10,836	112	165
Commercial - other	62,412	2,596	1,642	66,650	32	83
Total commercial	108,806	3,321	3,729	115,856	155	283
Private individuals - housing loans (f)	70,202	807	-	71,009	799	612
Private individuals - other	33,042	313	104	33,459	107	192
Total public - activity in Israel	212,050	4,441	3,833	220,324	1,061	1,087
Israeli banks	1,572	-	-	1,572	-	-
Government of Israel	293	-	-	293	-	-
Total activity in Israel	213,915	4,441	3,833	222,189	1,061	1,087
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	6,681	28	654	7,363	5	16
Commercial - other	17,426	186	789	18,401	115	71
Total commercial	24,107	214	1,443	25,764	120	87
Private individuals	2,005	21	58	2,084	69	21
Total public - activity abroad	26,112	235	1,501	27,848	189	108
Foreign banks	12,723	-	-	12,723	-	-
Foreign governments	190	-	-	190	-	-
Total activity abroad	39,025	235	1,501	40,761	189	108
Total public	238,162	4,676	5,334	248,172	1,250	1,195
Total banks	14,295	-	-	14,295	-	-
Total governments	483	-	-	483	-	-
Total	252,940	4,676	5,334	262,950	1,250	1,195

See notes on page 179.

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

B. Debts^(a) (cont'd)

1. Credit quality and arrears (cont'd)

	30 June 2013 (Unaudited)					
	Problem debts (b)				Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
	(NIS millions)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	14,357 (g)	183	463	15,003	8	17
Construction & real estate - real estate activities (g)	22,015	165	1,565	23,745	5	12
Financial services	11,153 (g)	350	347	11,850	-(g)	7
Commercial - other (g)	60,793	2,428	2,001	65,222	30	93
Total commercial	108,318	3,126	4,376	115,820	43	129
Private individuals - housing loans	64,571	787	-	65,358	758	618
Private individuals - other	29,772	291	77	30,140	248	165
Total public - activity in Israel	202,661	4,204	4,453	211,318	1,049	912
Israeli banks	1,473 (h)	-	-	1,473	-	-
Government of Israel	325	-	-	325	-	-
Total activity in Israel	204,459	4,204	4,453	213,116	1,049	912
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	6,972	108	773	7,853	26	39
Commercial - other	19,841	305	761	20,907	118	117
Total commercial	26,813	413	1,534	28,760	144	156
Private individuals	2,228	3	116	2,347	168	16
Total public - activity abroad	29,041	416	1,650	31,107	312	172
Foreign banks	10,660 (h)	-	-	10,660	-	-
Foreign governments	153	-	-	153	-	-
Total activity abroad	39,854	416	1,650	41,920	312	172
Total public	231,702	4,620	6,103	242,425	1,361	1,084
Total banks	12,133	-	-	12,133	-	-
Total governments	478	-	-	478	-	-
Total	244,313	4,620	6,103	255,036	1,361	1,084

See notes on page 179.

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

	31 December 2013 (Audited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
	(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 (g)	10,472	6	200	10,678	156	10
Commercial - other (g)	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 (f)	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 activity abroad	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 page 179.

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

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) 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.
- (c) 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.
- (d) Classified as problem debts that are not impaired, accruing interest income.
- (e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 1,195 million were classified as problem debts that are not impaired (30 June 2013 – NIS 763 million, 31 December 2013 – NIS 773 million).
- (f) Including balance of housing loans in the amount of NIS 182 million (30 June 2013 – NIS 204 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.
- (g) Reclassified.
- (h) Restated.

Credit quality – status of debts in arrears^(a)

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. Debts^(a) (cont'd)****2. Additional information on impaired debts****a. Impaired debts and individual allowance**

	30 June 2014 (Unaudited)				
	Balance (b) of impaired debts in respect of which there is an individual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) 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	273	31	353	626	1,623
Construction & real estate - real estate activities	772	217	641	1,413	2,502
Financial services	9	2	39	48	575
Commercial - other	1,149	409	493	1,642	5,084
Total commercial	2,203	659	1,526	3,729	9,784
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	73	46	31	104	1,849
Total public - activity in Israel	2,276	705	1,557	3,833	11,633
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,276	705	1,557	3,833	11,633
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	456	288	198	654	820
Commercial - other	612	347	177	789	953
Total commercial	1,068	635	375	1,443	1,773
Private individuals	31	18	27	58	95
Total public - activity abroad	1,099	653	402	1,501	1,868
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	1,099	653	402	1,501	1,868
Total public	3,375	1,358	1,959	5,334	13,501
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,375	1,358	1,959	5,334	13,501
Of which:					
Measured by present value of cash flows	1,968	996	1,118	3,086	
Debts under troubled debt restructuring	1,492	356	732	2,224	

See notes on page 182.

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

B. Debts^(a) (cont'd)

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

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

	30 June 2013 (Unaudited)				
	Balance (b) of impaired debts in respect of which there is an individual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) 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	105	48	358	463	1,475
Construction & real estate - real estate activities	1,122	242	443	1,565	2,824
Financial services	286	129	61	347	1,077
Commercial - other	1,060	407	941	2,001	5,376
Total commercial	2,573	826	1,803	4,376	10,752
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	43	36	34	77	1,756
Total public - activity in Israel	2,616	862	1,837	4,453	12,508
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,616	862	1,837	4,453	12,508
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	584	331	189	773	920
Commercial - other	585	358	176	761	867
Total commercial	1,169	689	365	1,534	1,787
Private individuals	84	50	32	116	116
Total public - activity abroad	1,253	739	397	1,650	1,903
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	1,253	739	397	1,650	1,903
Total public	3,869	1,601	2,234	6,103	14,411
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,869	1,601	2,234	6,103	14,411
Of which:					
Measured by present value of cash flows	2,481	1,250	1,572	4,053	
Debts under troubled debt restructuring (d)	1,271	343	671	1,942	

See notes on page 182.

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

	31 December 2013 (Audited)				
	Balance (b) of impaired debts in respect of which there is an individual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) 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 (d)	143	43	200	1,160 (d)
Commercial - other	1,006 (d)	356	908	1,914	4,999 (d)
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	

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Recorded balance of debt.
- (c) Individual allowance for credit losses.
- (d) Reclassified.

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

	For the three months ended 30 June 2014			For the three months ended 30 June 2013		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis
	(Unaudited)					
	(NIS millions)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	482	-	-	605	1	1
Construction & real estate - real estate activities	1,425	-	-	1,696	-	-
Financial services	249	-	-	688	-	-
Commercial - other	1,663	1	1	2,186	-	-
Total commercial	3,819	1	1	5,175	1	1
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	106	2	2	43	1	1
Total public - activity in Israel	3,925	3	3	5,218	2	2
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	3,925	3	3	5,218	2	2
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>	-	-	-	-	-	-
Construction & real estate	720	2	2	815	1	-
Commercial - other	849	3	3	750	2	1
Total commercial	1,569	5	5	1,565	3	1
Private individuals	85	1	1	93	1	1
Total public - activity abroad	1,654	6	6	1,658	4	2
Foreign banks	-	-	-	3	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	1,654	6	6	1,661	4	2
Total public	5,579	9	9	6,876	6	4
Total banks	-	-	-	3	-	-
Total governments	-	-	-	-	-	-
Total	5,579	9 (d)	9	6,879	6 (d)	4

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

(b) Average recorded balance of debt of impaired debts during the reporting period.

(c) 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.

(d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the three month period ended 30 June 2014 in the amount of NIS 85 million (for the three month period ended 30 June 2013 - NIS 133 million).

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

	For the six months ended 30 June 2014			For the six months ended 30 June 2013		
	Average balance of impaired debts (b)	Interest income recorded (c)	Of which: recorded on cash basis	Average balance of impaired debts (b)	Interest income recorded (c)	Of which: recorded on cash basis
	(Unaudited)					
	(NIS millions)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	510	2	2	594	2	2
Construction & real estate - real estate activities	1,423	2	2	1,691	-	-
Financial services	232	-	-	631	-	-
Commercial - other	1,603	5	4	2,170	4	3
Total commercial	3,768	9	8	5,086	6	5
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	106	3	3	51	2	2
Total public - activity in Israel	3,874	12	11	5,137	8	7
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	3,874	12	11	5,137	8	7
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>	-	-	-	-	-	-
Construction & real estate	710	4	4	835	3	2
Commercial - other	835	6	6	754	5	4
Total commercial	1,545	10	10	1,589	8	6
Private individuals	79	1	1	93	1	1
Total public - activity abroad	1,624	11	11	1,682	9	7
Foreign banks	-	-	-	3	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	1,624	11	11	1,685	9	7
Total public	5,498	23	22	6,819	17	14
Total banks	-	-	-	3	-	-
Total governments	-	-	-	-	-	-
Total	5,498	23 (d)	22	6,822	17 (d)	14

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Average recorded balance of debt of impaired debts during the reporting period.
- (c) 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.
- (d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the six month period ended 30 June 2014 in the amount of NIS 213 million (for the six month period ended 30 June 2013 – NIS 283 million).

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

B. Debts^(a) (cont'd)

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

c. Problem debts under restructuring

	30 June 2014 (Unaudited)				
	Not accruing interest income	Accruing (b) in arrears of 90 days or more	Accruing (b) in arrears of 30 to 89 days	Accruing (b) not in arrears	Total (c)
	(NIS millions)				
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	242	-	-	-	242
Construction & real estate - real estate activities	520	-	-	1	521
Financial services	45	-	-	-	45
Commercial - other	444	-	-	32	476
Total commercial	1,251	-	-	33	1,284
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	54	-	-	-	54
Total public - activity in Israel	1,305	-	-	33	1,338
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,305	-	-	33	1,338
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	223	-	-	190	413
Commercial - other	210	-	-	227	437
Total commercial	433	-	-	417	850
Private individuals	25	-	-	11	36
Total public - activity abroad	458	-	-	428	886
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	458	-	-	428	886
Total public	1,763	-	-	461	2,224
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,763	-	-	461	2,224

See notes on page 187.

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

	30 June 2013 (Unaudited)				
	Not accruing interest income	Accruing (b) in arrears of 90 days or more	Accruing (b) in arrears of 30 to 89 days	Accruing (b) not in arrears	Total (c)
	(NIS millions)				
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	87	-	-	-	87
Construction & real estate - real estate activities	594	-	-	-	594
Financial services	52	-	-	-	52
Commercial - other	266	-	-	39	305
Total commercial	999	-	-	39	1,038
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	45	-	-	3	48
Total public - activity in Israel	1,044	-	-	42	1,086
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,044	-	-	42	1,086
<u>Activity of borrowers abroad</u>					
<u>Public - commercial (d)</u>					
Construction & real estate	188	-	-	320	508
Commercial - other	169	-	-	153	322
Total commercial	357	-	-	473	830
Private individuals	15	-	-	11	26
Total public - activity abroad	372	-	-	484	856
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	372	-	-	484	856
Total public	1,416	-	-	526	1,942
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,416	-	-	526	1,942

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (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 (b) in arrears of 90 days or more	Accruing (b) in arrears of 30 to 89 days	Accruing (b) not in arrears	Total (c)
	(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

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

(b) Accumulating interest income.

(c) Included in impaired debts.

(d) Reclassified.

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

B. Debts^(a) (cont'd)

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

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out

	For the three months ended 30 June 2014			For the three months ended 30 June 2013		
	Number of contracts (Unaudited) (NIS millions)	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	debt balance before restructuring	Recorded debt balance after restructuring
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	8	15	15	8	1	1
Construction & real estate - real estate activities	4	52	50	5	7	7
Financial services	-	-	-	-	-	-
Commercial - other	10	1	1	16	1	1
Total commercial	22	68	66	29	9	9
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	195	1	1	242	2	2
Total public - activity in Israel	217	69	67	271	11	11
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	217	69	67	271	11	11
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	4	22	21	1	12	12
Commercial - other	10	34	28	17	81	80
Total commercial	14	56	49	18	93	92
Private individuals	2	-	-	10	2	2
Total public - activity abroad	16	56	49	28	95	94
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	16	56	49	28	95	94
Total public	233	125	116	299	106	105
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	233	125	116	299	106	105

(a) 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. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)****1. Restructurings carried out (cont'd)**

	For the six months ended 30 June 2014			For the six months ended 30 June 2013		
	Number of contracts (Unaudited) (NIS millions)	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	12	15	15	12	2	2
Construction & real estate - real estate activities	6	56	54	9	68	68
Financial services	-	-	-	-	-	-
Commercial - other	46	32	27	33	2	2
Total commercial	64	103	96	54	72	72
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	325	3	3	465	4	4
Total public - activity in Israel	389	106	99	519	76	76
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	389	106	99	519	76	76
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	8	119	118	5	39	39
Commercial - other	28	157	151	28	137	135
Total commercial	36	276	269	33	176	174
Private individuals	11	2	2	42	6	6
Total public - activity abroad	47	278	271	75	182	180
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	47	278	271	75	182	180
Total public	436	384	370	594	258	256
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	436	384	370	594	258	256

(a) 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. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)****2. Failed restructurings carried out^(b)**

	For the three months ended 30 June 2014		For the three months ended 30 June 2013	
	Number of contracts (NIS millions)	Recorded debt balance (c)	Number of contracts (NIS millions)	Recorded debt balance (c)
<u>Activity of borrowers in Israel</u>				
<u>Public - commercial</u>				
Construction & real estate - construction	8	2	- (d)	-
Construction & real estate - real estate activities	-	-	4	3
Financial services	-	-	-	-
Commercial - other	34	14	4 (d)	5
Total commercial	42	16	8	8
Private individuals - housing loans	-	-	-	-
Private individuals - other	122	1	161 (d)	2
Total public - activity in Israel	164	17	169	10
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	164	17	169	10
<u>Activity of borrowers abroad</u>				
<u>Public - commercial</u>				
Construction & real estate	1	-	-	1
Commercial - other	10	9	7	-
Total commercial	11	9	7	1
Private individuals	1	-	1	-
Total public - activity abroad	12	9	8	1
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	12	9	8	1
Total public	176	26	177	11
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	176	26	177	11

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

(b) 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.

(c) Recorded balance of debt at the end of the quarter in which the failure was carried out.

(d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)****2. Failed restructurings carried out^(b) (cont'd)**

	For the six months ended 30 June 2014		For the six months ended 30 June 2013	
	Number of contracts (NIS millions)	Recorded debt balance (c)	Number of contracts (NIS millions)	Recorded debt balance (c)
<u>Activity of borrowers in Israel</u>				
<u>Public - commercial</u>				
Construction & real estate - construction	15	5	6 (d)	1
Construction & real estate - real estate activities	2	14	6	5
Financial services	-	-	1	-
Commercial - other	72	24	30 (d)	14
Total commercial	89	43	43	20
Private individuals - housing loans	-	-	-	-
Private individuals - other	192	1	334 (d)	2
Total public - activity in Israel	281	44	377	22
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	281	44	377	22
<u>Activity of borrowers abroad</u>				
<u>Public - commercial</u>				
Construction & real estate	2	12	2	2
Commercial - other	15	16	14	10
Total commercial	17	28	16	12
Private individuals	7	1	6	2
Total public - activity abroad	24	29	22	14
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	24	29	22	14
Total public	305	73	399	36
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	305	73	399	36

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

(b) 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.

(c) Recorded balance of debt at the end of the quarter in which the failure was carried out.

(d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****3. Additional information on housing loans**

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

		30 June 2014 (Unaudited)			
			¹ Of which: bullet and balloon	¹ Of which: variable interest	Off-balance sheet credit risk total
Balance of housing loans		Total ¹ (NIS millions)			
First charge: rate of financing	Up to 60%	42,657	3,385	32,068	827
	Above 60%	27,531	1,236	21,469	314
Second charge or without charge		747	40	597	1,203
Total		70,935	4,661	54,134	2,344
		30 June 2013 (Unaudited)			
			¹ Of which: bullet and balloon	¹ Of which: variable interest	Off-balance sheet credit risk total
Balance of housing loans		Total ¹ (NIS millions)			
First charge: rate of financing	Up to 60%	34,292	3,008	26,592	3,750
	Above 60%	30,257	1,778	23,878	2,262
Second charge or without charge		671	44	544	25
Total		65,220	4,830	51,014	6,037
		31 December 2013 (Audited)			
			¹ Of which: bullet and balloon	¹ Of which: variable interest	Off-balance sheet credit risk total
Balance of housing loans		Total ¹ (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

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

(b) 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**

	30 June 2014	30 June 2013 (a)	31 December 2013
	(Unaudited)		(Audited)
	(NIS millions)		
In Israel			
On demand			
Non-interest bearing	851	741	800
Interest bearing	78,345	66,302	78,022
Total on demand	79,196	67,043	78,822
Fixed term	172,065	177,963	177,970
Total deposits in Israel ¹	251,261	245,006	256,792
Outside Israel			
On demand			
Non-interest bearing	12,793	13,618	12,887
Interest bearing	2,601	2,589	2,587
Total on demand	15,394	16,207	15,474
Fixed term	13,206	14,235	13,737
Total deposits outside Israel	28,600	30,442	29,211
Total deposits of the public	279,861	275,448	286,003
¹ Of which:			
Deposits of private persons	120,520	130,907	125,774
Deposits of institutional entities	31,163	23,692	29,554
Deposits of corporations and others	99,578	90,407	101,464

B. Deposits of the public by size

	30 June 2014	30 June 2013 (a)	31 December 2013
	(Unaudited)		(Audited)
	(NIS millions)		
Up to 1	84,215	85,554	88,210
From 1 to 10	76,175	82,057	79,246
From 10 to 100	46,151	48,355	53,138
From 100 to 500	29,638	21,929	33,405
Above 500	43,682	37,553	32,004
Total	279,861	275,448	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

	30 June 2014	1 January 2014	30 June 2013	31 December 2013
	(Basel III) (a)		(Basel II) (b) (h)	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	(NIS millions)			
A. Data				
Capital for purposes of calculating capital ratio				
Tier 1 capital, after deductions	27,328	26,420	25,293	26,263
Tier 2 capital, after deductions	14,365	14,337	16,764	15,007
Total capital	41,693	40,757	42,057	41,270
Weighted balances of risk assets				
Credit risk	260,632	256,009 (e)	247,261 (f)	247,548
Market risk	11,661	10,613 (e)	12,134	10,510
Operational risk (c)	20,328	20,426	20,680	20,426
Total weighted balances of risk assets	292,621	287,048	280,075	278,484
Ratio of capital to risk components (%)				
Ratio of Tier 1 capital to risk components	9.34%	9.20%	9.03%	9.43%
Ratio of total capital to risk components	14.25%	14.20%	15.02%	14.82%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	9.00% (g)	9.00% (g)	-	-
Minimum total capital ratio required by the Supervisor of Banks	12.50% (g)	12.50% (g)	9.00%	9.00%
B. Principal subsidiary companies				
Arab Israel Bank				
Ratio of Tier 1 capital to risk components	11.81%	11.58%	11.34%	11.85%
Ratio of total capital to risk components	13.21%	12.97%	14.99%	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% (g)	12.50% (g)	9.00%	9.00%
Leumi Card Ltd.				
Ratio of Tier 1 capital to risk components	16.20%	16.40%	16.20%	16.00%
Ratio of total capital to risk components	17.14%	17.30%	16.20%	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% (g)	12.50% (g)	9.00%	9.00%
Bank Leumi USA (d)				
Ratio of Tier 1 capital to risk components	12.19%	11.70%	11.51%	11.70%
Ratio of total capital to risk components	15.08%	14.54%	14.37%	14.54%
Minimum total capital ratio required by the local authorities	10.00%	10.00%	10.00%	10.00%

- (a) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1 January 2014.
- (b) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy" applicable until 31 December 2013.
- (c) First Pillar capital allocation in respect of operational risk is in accordance with the Standardized Approach.
- (d) 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.
- (e) Reclassified.
- (f) Restated.
- (g) As of 1 January 2015.
- (h) Tier 1 shareholders' equity in Basel II data should be referred to as Tier 1 capital.

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

	30 June 2014	1 January 2014	30 June 2013	31 December 2013
	(Basel III) (a)		(Basel II) (b) (c)	
	(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	27,303	26,425	25,375	26,244
Differences between equity attributed to shareholders of the bank and Tier 1 shareholders' equity	286	299	318	340
Tier 1 shareholders' equity before regulatory adjustments and deductions	27,589	26,724	25,693	26,584
Regulatory adjustments and deductions:				
Goodwill and intangible assets	(217)	(234)	(335)	(256)
Deferred tax assets	(35)	(66)	-	-
Equity investments in financial corporations that are not consolidated in reports to the public	-	-	-	-
Regulatory adjustments and deductions - Tier 1 shareholders' equity	(9)	(4)	(64)	(65)
Total regulatory adjustments and deductions - Tier 1 shareholders' equity	(261)	(304)	(399)	(321)
Total Tier 1 shareholders' equity, after regulatory adjustments and deductions	27,328	26,420	25,294	26,263
2. Tier 2 capital				
Tier 2 capital: instruments before deductions	11,642	11,639	16,270	14,544
Tier 2 capital: provisions before deductions	2,723	2,698	558	528
Total Tier 2 capital before deductions	14,365	14,337	16,828	15,072
Deductions:				
Total deductions - Tier 2 capital	-	-	(64)	(65)
Total Tier 2 capital	14,365	14,337	16,764	15,007

(a) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1.1.2014.

(b) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy" applicable until 31.12.2013.

(c) Tier 1 shareholders' equity in Basel II data should be referred to as Tier 1 capital.

	30 June 2014	1 January 2014
	(Basel III)	
	(Unaudited)	(Audited)
	(%)	
1. Ratio of capital to risk components		
Ratio of Tier 1 shareholders' equity to risk components before application of the effect of the transition in Directive 299	9.23%	9.05%
Effect of the transitional directive	0.11%	0.15%
Ratio of Tier 1 shareholders' equity to risk components after application of the effect of the transition in Directive 299	9.34%	9.20%

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

D. General

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.

E. 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 301A 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 657,869 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 terms 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 amounted 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.

F. 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.

For further information on the capital of the Bank, see the Capital Position and Securities Registers as published on 13 April 2014 (Reference: 2014-01-045549).

**Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis
at 30 June 2014 (Unaudited)**

	Israeli currency		Foreign currency (a)				
		Linked to	In U.S.	In	In other	Non-	
	Unlinked	the CPI	dollars	euro	currencies	monetary	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	35,687	258	8,275	1,139	4,438	105	49,902
Securities	25,158	2,612	13,484	2,960	1,943	3,556	49,713
Securities borrowed or purchased under agreements to resell	1,634	-	-	-	-	-	1,634
Credit to the public, net (c)	151,420	53,502	27,020	5,733	6,516	194	244,385
Credit to governments	58	235	136	54	-	-	483
Investments in companies included on equity basis	-	-	-	-	-	1,641	1,641
Buildings and equipment	-	-	-	-	-	3,625	3,625
Assets in respect of derivative instruments	8,409	321	1,767	47	223	1,093	11,860
Other assets, intangible assets and goodwill	3,793	4	797	9	172	559	5,334
Total assets	226,159	56,932	51,479	9,942	13,292	10,773	368,577
Liabilities							
Deposits of the public	155,433	28,353	69,499	16,089	10,095	392	279,861
Deposits from banks	1,742	101	2,622	563	173	-	5,201
Deposits from governments	20	2	327	10	-	-	359
Securities lent or sold under agreements to repurchase	747	-	-	-	-	-	747
Debentures, bonds and subordinated notes	4,611	19,888	-	-	10	-	24,509
Liabilities in respect of derivative instruments	8,112	475	1,679	547	292	1,048	12,153
Other liabilities	9,576	5,995	1,557	56	283	654	18,121
Total liabilities	180,241	54,814	75,684	17,265	10,853	2,094	340,951
Difference (d)	45,918	2,118	(24,205)	(7,323)	2,439	8,679	27,626
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	687	-	(7)	-	(680)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(25,101)	(2,096)	23,305	6,268	(2,433)	57	-
Options in the money, net (in terms of underlying asset)	248	-	(678)	430	74	(74)	-
Options out of the money, net (in terms of underlying asset)	555	-	(722)	146	28	(7)	-
Total	22,307	22	(2,307)	(479)	(572)	8,655	27,626
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	313	-	(865)	560	126	(134)	-
Options out of the money, net (discounted par value)	(47)	-	(116)	315	(133)	(19)	-

See notes on page 200.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd)
at 30 June 2013 (Unaudited)

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

See notes on page 200.

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

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	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 (c)	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 (d)	44,825	1,682	(25,861)	(5,628)	2,897	8,850	26,765
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	694	-	-	-	(694)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(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	-

(a) Including linked to foreign currency.

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

(c) After deducting credit loss allowances attributed to the linkage basis in the amount of NIS 3,787 million (30 June 2013 – NIS 3,942 million, 31 December 2013 – NIS 3,883 million).

(d) Shareholders' equity including minority interests.

6 - Contingent Liabilities and Special Commitments

	30 June 2014		30 June 2013		31 December 2013	
	Balances of contracts (Unaudited)	Balance of allowance for credit losses (NIS millions)	Balances of contracts	Balance of allowance for credit losses	Balances of contracts (Audited)	Balance of allowance for credit losses
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	1,906	5	2,468	7	1,867	4
Credit guarantees	5,398	92	5,545	87	5,490	84
Guarantees to apartment purchasers	16,218	23	15,714	20	15,529	22
Other guarantees and liabilities	15,515	181	15,880	177	15,033	172
Unutilized credit facilities for credit cards	25,719	23	24,002	22	24,669	22
Current loan account facilities and other credit facilities on demand not utilized	14,456	24	13,757	27	14,158	24
Irrevocable commitments to provide credit which has been approved and not yet granted (1)	21,042	64	22,177	55	20,801	66
Commitments to issue guarantees	12,041	18	10,694	14	11,845	18
Unutilized facilities for activity in derivative instruments	5,646	-	5,599	-	6,406	-
Approval in principle to maintain interest rate	3,958	-	4,224	-	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 206 million (30 June 2013 - NIS 217 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		209		225	
Second year	189		189		195	
Third year	173		170		174	
Fourth year	158		155		162	
Fifth year	125		131		130	
After five years	781		805		815	
Total	1,644		1,659		1,701	
(2) Commitments to purchase securities	587		320		568	
(3) Commitments to invest in buildings, equipment and others	191		244		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	9		17		17	
Second year	12		12		12	
Third year	-		9		3	
Total future deposits	21		38		32	

Note 6 - Contingent Liabilities and Special Commitments (cont'd)**(C) Legal claims**

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 93 million.

(1) Details of claims in amounts in excess of 0.5% of the equity of the Bank at 30 June 2014 (about NIS 130 million) and in which there have been developments and changes in relation to that described in the 2013 Financial Statements:

- A. On 6 May 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv-Jaffa District Court. According to the plaintiff, the Bank charges its customers' accounts with the legal expenses incurred in handling said customers' debts, without obtaining the approval of any legal tribunal, and in violation of the directives of the Supervisor of Banks – "Proper Banking Management Directives – Charging Customers for Attorneys' Fees." Additionally, when the Bank charges its customers' accounts with legal expenses (both those approved by a legal tribunal and those that were not), the Bank collects interest on such expenses at the interest rate applicable to the account (which in many cases is excess interest on arrears) and not at the interest and linkage rates which the Bank is permitted to collect in accordance with the Adjudication of Interest and Linkage Law, 1961, and the provisions of the Execution Law. On 23 July 2014, a judgment was handed down by the Court approving a compromise arrangement between the parties. The compromise agreement determines, *inter alia*, that the Bank will initiate a uniform balance amendment of NIS 2,500 in the existing accounts of the customers in which collection proceedings are taking place or took place. Customers whose accounts are closed and who paid the Bank the whole amount of their debt, without a write off or waiver, will be entitled to request compensation from the Bank of NIS 2,500 as set forth in the judgment.
- B. On 13 July 2011, a petition was filed in the Tel-Aviv District Court for approval of a class action against Automatic Bank Services Ltd. (hereinafter: "ABS") and against Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., First International Bank of Israel B.M., and Israel Discount Bank B.M. ABS is a service company jointly owned by the banks mentioned above, whose activities include operating an independent network of automatic teller machines (ATM). It is claimed in the petition that when withdrawing cash from an ATM operated by ABS, the user is not provided with fair disclosure that in addition to the commission charged by ABS for the withdrawal, he will be charged additional commission by the bank in which his account is held. In addition, it is claimed in the petition that the banks are not authorized to charge their customers additional commission, after they were already charged for the withdrawal by ABS. The total amount claimed in the class action, in the opinion of the petitioners, is NIS 153.3 million, with the addition of linkage differentials and interest. There are no details of the distribution between the defendants. The parties reached an agreed arrangement that was approved by the Court, under which they will pay the plaintiffs about NIS 7 million. The Bank's share in the arrangement amounts to some NIS 300 thousand.

- C. 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 of a liquidation fund 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 apparent control over the company; 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 the apparent 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. The bank has filed its response to the petition.
- (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 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. The petitioners, on 29 October 2013, filed a petition to reinstate proceedings in the claim. The Court has not yet handed down its decision on the petition to reinstate proceedings.
- 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 are 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 maximum rate of interest.

- G.** 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.
 - H.** 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.
 - I.** On 5 August 2014, a petition was filed with the Tel Aviv District Court to approve a class action against the Bank, Bank Hapoalim, Bank Mizrahi, Israel Discount Bank, First International Bank, Bank Otzar Hachayal, and Mercantile Discount Bank. The plaintiff claims that the respondent banks are in violation of the Banking Rules – Service to the Customer (Fees), in that they charge minimum fees for transferring foreign currency, at different levels, instead of one minimum fee only, which the plaintiff claims is required by the Rules, and that the violation that is shared by all the respondent banks is in fact a restrictive practice that contradicts the Antitrust Law. The amount of damages claimed is estimated by the plaintiff, for all the respondents together, at some NIS 1.5 billion. The Bank's share, according to the plaintiff, is some 30% of the market. In addition, the plaintiff requests the Court, inter alia, to grant an order restricting the banks from charging a fee for a foreign currency transfer to another bank to a maximum of US \$30, and the fee for receiving foreign currency from another bank to a maximum amount of US \$10.
- (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 28 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.
 - B.** On 3 July 2014, a petition for approval of a class action was filed with the Tel-Aviv District Court against IsraCard, Leumi Card, the Bank, and Bank Hapoalim in the sum of NIS 200 million, concerning the charging of conversion commission and exchange rate differences commission when executing a transaction in foreign currency. According to the plaintiff's claim, conversion commission is charged unlawfully and there is no fair disclosure of its

collection or on the exchange rate differences and the method of calculation in the detailed statements sent to the customer.

(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 March 2014, and in addition the company included on equity basis 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) On 18 May 2014, the Israel Corporation announced the convening of 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.

On 20 June 2014, the Israel Corporation published an Immediate Report including an amended transaction report concerning the Zim arrangement. It states in this Report, *inter alia*, that as stated in Note 5a4d of the financial statements for the Israel Corporation at 31 March 2014, if and insofar as the Zim arrangement will be completed, the Israel Corporation is expected to record a profit of some US \$535 million (as at 31 March 2014) resulting from the loss of control of Zim and the reporting of the investment of the Israel Corporation in the equity of Zim according to the proposed arrangement.

On 29 June 2014, the Israel Corporation published an Immediate Report on the approval of the shareholders of the Israel Corporation's share in the Zim arrangement.

On 17 July 2014, the Israel Corporation reported that after all the conditions precedent for the completion of the Israel Corporation's share in the arrangement had been met, the arrangement was completed.

On 7 August 2014, the Israel Corporation reported in an Immediate Report that it had been given a copy of a petition for approval as a derivative action by a shareholder against the company, Zim, directors and controlling owners of the company. The petitioner claims, in essence, that the undertaking of the company and the execution of an interested party transaction by it in the framework of Zim's debt arrangement were made in deviation from authorization in contravention of the approval of the meeting of the shareholders of the company, and although the condition precedent to the undertaking by the company in this transaction was not met and other claims.

The Israel Corporation is studying the petition and the lawsuit.

- (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 financial statements of the Israel Corporation at 31 March 2014 state that 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.

- (4) On 18 May, 2014, the Sheshinski Committee published its draft conclusions (the 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 received the partial arbitration ruling concerning royalties ("arbitrators' ruling"). The main elements of the ruling received are as follows:

- 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.

The Israel Corporation, with the assistance of its financial and legal advisors, reviewed the ruling of the arbitrators and its implications, in accordance with an estimate made by the

management of Israel Chemicals and approved by the Board of Directors of Israel Chemicals, and a provision was made in its financial statements, net, against profit and loss. The Corporation's net share of the effect of the above provision on the results of the Corporation is about US \$70 million.

The ruling of the arbitrators is a partial ruling and the financial calculations as to the manner of implementation of the ruling have not yet been determined by them. The final amount to be ruled by the arbitrators, at the end of the second stage of the arbitration, and after the financial calculations are determined by them, as stated, will be derived, inter alia, from the amounts of sales, the prices prevailing in the market, and from the product mix, and so changes may occur in the amounts that would have been paid in 2013, as mentioned.

For further information on these issues, see the financial statements of the Israel Corporation Ltd. at 31 March 2014 and 31 December 2013.

(E) Contingent liabilities and other special commitments

- (1) 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 and it was agreed 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 also the other banks with respect to the amounts relating to them), instead of payment to the Treasury and subject to the conditions stipulated in agreements with the Commissioner, as part of the compromise arrangements in a number of petitions for the approval for class actions pending against the Bank. On 15 June 2014, the Antitrust Tribunal approved the agreements between the parties and validated the agreed order.
- (2) Bank Leumi Group ("the Group") and its representatives are conducting intensive contacts with the United States Department of Justice (DOJ) to conclude the formulation of an agreed arrangement concerning investigations conducted by them against the Group in connection with the Group's activities with U.S. customers.

As reported by the Bank on 8 June 2014, in light of an updated evaluation by the Bank regarding the expected final amount of the arrangement with the DOJ, the Group increased the provision by an amount of some NIS 460 million, so that the balance of the provision on the issue in the books of the Group at 30 June 2014 will total some NIS 946 million (including the balance of anticipated expenses of advisors, service providers and outside experts. This provision does not constitute an acknowledgement of any claim against the Group.

In addition, the United States Securities and Exchange Commission (SEC) and the New York State Department of Financial Services (NYDFS) have begun investigations of the Group's activities.

In light of the above mentioned, there is still no certainty regarding the amount of expenditure that might be incurred by the Group in these matters, and it is possible that the final amount of the expense will be significantly higher than the amount thus far included in the financial statements.

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

	30 June 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 (a)						
Forward contracts	-	-	1,396	-	-	1,396
Swaps	-	2,263	-	-	-	2,263
Total	-	2,263	1,396	-	-	3,659
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,203	-	-	-	2,203
b) ALM derivatives (a)(b)						
Futures contracts	-	10,193	331	41,181	8,236	59,941
Forward contracts	10,097	24,797	140,131	68	65	175,158
Exchange-traded options						
Options written	-	8,576	11,580	10,441	762	31,359
Options purchased	-	8,576	11,473	10,321	762	31,132
Other options						
Options written	-	8,566	22,199	1,021	198	31,984
Options purchased	-	5,848	20,512	971	199	27,530
Swaps	666	250,525	26,877	13,455	303	291,826
Total	10,763	317,081	233,103	77,458	10,525	648,930
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	137,299	-	-	-	137,299
c) Other derivatives (a)						
Total	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-	-
Spot foreign exchange contracts	-	-	10,630	-	-	10,630
Total	-	-	10,630	-	-	10,630
Grand total	10,763	319,344	245,129	77,458	10,525	663,219

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

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

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

	30 June 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 (a)						
Gross positive fair value	-	4	21	-	-	25
Gross negative fair value	-	140	-	-	-	140
b) ALM derivatives (a)(b)						
Gross positive fair value	168	7,562	2,770	1,224	115	11,839
Gross negative fair value	288	7,093	3,311	1,241	107	12,040
c) Other derivatives (a)						
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 (c)	168	7,566	2,791	1,224	115	11,864
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	168	7,566	2,791	1,224	115	11,864
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements						
	7	39	304	37	2	389
Gross negative fair value (c)	288	7,233	3,311	1,241	107	12,180
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	288	7,233	3,311	1,241	107	12,180
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements						
	45	18	659	196	1	919

(a) Except credit derivatives.

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

(c) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 4 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 27 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

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

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

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

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

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

(a) Except credit derivatives.

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

(c) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 9 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

	31 December 2013 (Audited)					
	Interest contracts		Foreign	Contracts in	Commodities	
	Shekel –		currency	respect of	and other	
	index	Other	contracts	shares	contracts	Total
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging instruments (a)						
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 (a)(b)						
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 (a)						
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

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

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

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

	31 December 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) Hedging derivatives (a)						
Gross positive fair value	-	36	37	-	-	73
Gross negative fair value	-	130	10	-	-	140
b) ALM derivatives (a)(b)						
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 (a)						
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 (c)	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

(a) Except credit derivatives.

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

(c) 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**

	30 June 2014 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (a) (b)	160	7,818	1,872	156	1,858	11,864
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	2,851	769	-	362	3,982
Mitigation of credit risk in respect of cash collateral received	-	1,140	251	116	3	1,510
Net amount of assets in respect of derivative instruments	160	3,827	852	40	1,493	6,372
Off-balance sheet credit risk in respect of derivative instruments (d)	-	3,158	797	97	4,469	8,521
Mitigation of off-balance sheet credit risk	-	99	18	-	986	1,103
Net off-balance sheet credit risk in respect of derivative instruments	-	3,059	779	97	3,483	7,418
Total credit risk in respect of derivative instruments	160	6,886	1,631	137	4,976	13,790
Book balance of liabilities in respect of derivative instruments (a) (c)	343	6,840	1,653	1	3,343	12,180
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	2,851	769	-	362	3,982
Cash collateral pledged	-	420	35	-	-	455
Net amount of liabilities in respect of derivative instruments	343	3,569	849	1	2,981	7,743

See notes on page 217.

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 (cont'd)**

	30 June 2013 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (a) (b)	89	8,024	1,519	14	2,269	11,915
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	6,517	1,422	3	503	8,445
Mitigation of credit risk in respect of cash collateral received	-	878	4	-	14	896
Net amount of assets in respect of derivative instruments	89	629	93	11	1,752	2,574
Off-balance sheet credit risk in respect of derivative instruments (d)	-	10,510	1,537	201	9,950	22,198
Mitigation of off-balance sheet credit risk	-	3,304	88	29	2,183	5,604
Net off-balance sheet credit risk in respect of derivative instruments	-	7,206	1,449	172	7,767	16,594
Total credit risk in respect of derivative instruments	89	7,835	1,542	183	9,519	19,168
Book balance of liabilities in respect of derivative instruments (a) (c)	183	7,894	1,847	3	2,738	12,665
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	6,517	1,422	3	503	8,445
Cash collateral pledged	-	677	258	-	-	935
Net amount of liabilities in respect of derivative instruments	183	700	167	-	2,235	3,285

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 (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 (a) (b)	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 (d)	-	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 (a) (c)	317	7,542	1,824	-	3,820	13,503
Gross amounts not offset in the balance sheet:						
Derivative 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

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

(b) Of which a book balance of assets in respect of standalone derivative instruments in the amount of NIS 11,860 million.

(c) Of which a book balance of standalone derivative instruments in the amount of NIS 12,153 million (at 30 June 2013 - NIS 12,656 million, at 31 December 2013 – NIS 13,487 million).

(d) 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.

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

	30 June 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	1,008	3,590	4,743	1,422	10,763
Other	45,272	67,587	129,387	77,098	319,344
Foreign currency contracts	147,554	64,095	16,504	16,976	245,129
Contracts in respect of shares	63,128	13,680	650	-	77,458
Commodities and other contracts	5,681	4,733	111	-	10,525
Total	262,643	153,685	151,395	95,496	663,219
Total for 30 June 2013 (Unaudited)	226,586	135,005	163,872	120,229	645,692
Total for 31 December 2013 (Audited)	261,696	130,243	161,704	116,988	670,631

Note 8 – Balances and fair value assessments of financial instruments

	30 June 2014 (Unaudited)				
	Book	Fair value			
	value	Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	49,902	13,717	35,249	961	49,927
Securities (b)	49,713	32,580	13,927	3,206	49,713
Securities borrowed or purchased under agreements to resell	1,634	1,634	-	-	1,634
Credit to the public, net	244,385	2,688	63,950	179,251	245,889
Credit to governments	483	-	38	461	499
Assets in respect of derivative instruments	11,860	1,064	9,256	1,540	11,860
Other financial assets	939	151	-	788	939
Total financial assets	358,916 (c)	51,834	122,420	186,207	360,461
Financial liabilities					
Deposits of the public	279,861	3,089	144,336	134,751	282,176
Deposits from banks	5,201	-	3,884	1,317	5,201
Deposits from governments	359	-	279	78	357
Securities lent or sold under agreements to repurchase	747	747	-	-	747
Debentures, notes and subordinated notes	24,509	22,467	386	4,352	27,205
Liabilities in respect of derivative instruments	12,153	1,019	10,787	347	12,153
Other financial liabilities	8,028	141	-	7,885	8,026
Total financial liabilities	330,858 (c)	27,463	159,672	148,730	335,865
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	306	-	-	306	306

- (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 2.
- (3) Of which: assets and liabilities in the amounts of NIS 109,196 million and NIS 88,981 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 8A - 8C.

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

	30 June 2013 (Unaudited)				
	Book	Fair value			
	value	Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks (d)	42,754	30,635	6,582	5,558	42,775
Securities (b)	57,580	38,505	16,045	3,030	57,580
Securities borrowed or purchased under agreements to resell	1,973	1,973	-	-	1,973
Credit to the public, net	238,483	2,398	61,893	176,399	240,690
Credit to governments	478	-	77	443	520
Assets in respect of derivative instruments	11,915	696	9,463	1,756	11,915
Other financial assets	1,048	107	-	941	1,048
Total financial assets	354,231 (c)	74,314	94,060	188,127	356,501
Financial liabilities					
Deposits of the public	275,448	1,580	124,574	151,077	277,231
Deposits from banks	4,245	-	3,940	278	4,218
Deposits from governments	455	-	323	154	477
Securities lent or sold under agreements to repurchase	1,327	1,327	-	-	1,327
Debentures, notes and subordinated notes	27,587	24,984	387	4,817	30,188
Liabilities in respect of derivative instruments	12,656	696	11,486	474	12,656
Other financial liabilities	7,321	107	-	7,200	7,307
Total financial liabilities	329,039 (c)	28,694	140,710	164,000	333,404
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	284	-	-	284	284

- (a) 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.
- (b) For further details on the book value and fair value of securities, see note on securities.
- (c) Of which: Assets and liabilities in the amounts of NIS 105,906 million and NIS 84,753 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further information on financial instruments measured for fair value on a recurring and non-recurring basis, see Notes 8A – 8C.
- (d) Reclassified.

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

	31 December 2013 (Audited)				
	Book	Fair value			
	value	Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	44,351	32,061	11,492	823	44,376
Securities (b)	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 (c)	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 (c)	27,762	157,998	156,687	342,447
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	289	-	-	289	289

- (a) 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.
- (b) For further details on the book value and fair value of securities, see the note on securities.
- (c) 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 30 June 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	19,058	1,460	-	20,518
Foreign government bonds	1,061	648	4	1,713
Bonds of Israeli financial institutions	39	62	-	101
Bonds of overseas financial institutions	431	3,749	-	4,180
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	4,899	1,748	6,647
Other bonds in Israel	414	305	9	728
Other bonds abroad	951	1,368	-	2,319
Shares and mutual funds available for sale	1,606	-	-	1,606
Total securities available for sale	23,560	12,491	1,761	37,812
Securities held for trading:				
Government of Israel bonds	7,202	191	-	7,393
Foreign government bonds	529	29	-	558
Bonds of financial institutions in Israel	399	-	-	399
Bonds of financial institutions abroad	-	153	-	153
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	515	-	515
Other bonds in Israel	385	-	-	385
Other bonds abroad	-	548	-	548
Shares and mutual funds held for trading	505	-	-	505
Total securities held for trading	9,020	1,436	-	10,456
Assets in respect of derivative instruments:				
Shekel-index contracts	-	58	110	168
Interest contracts	20	7,064	482	7,566
Foreign currency contracts	52	1,572	916	2,540
Share contracts	464	528	32	1,024
Commodities and other contracts	81	34	-	115
Activity in Maof market	447	-	-	447
Total assets in respect of derivative instruments:	1,064	9,256	1,540	11,860
Others:				
Credit and deposits in respect of lending of securities	2,688	4	-	2,692
Securities borrowed or purchased under agreements to resell	1,634	-	-	1,634
Other	170	-	-	170
Total others	4,492	4	-	4,496
Total assets	38,136	23,187	3,301	64,624

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

	As at 30 June 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)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	218	70	288
Interest contracts	20	7,210	3	7,233
Foreign currency contracts	7	2,756	274	3,037
Share contracts	464	577	-	1,041
Commodities and other contracts	81	26	-	107
Activity in Maof market	447	-	-	447
Total liabilities in respect of derivative instruments	1,019	10,787	347	12,153
Others:				
Deposits in respect of lending of securites	3,089	27	7	3,123
Securities lent or sold under agreements to repurchase	747	-	-	747
Others	141	-	-	141
Total others	3,977	27	7	4,011
Total liabilities	4,996	10,814	354	16,164

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

	As at 30 June 2013 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	23,806	1,824	-	25,630
Foreign government bonds	2,783	789	6	3,578
Bonds of Israeli financial institutions	68	61	-	129
Bonds of overseas financial institutions	439	5,003	119	5,561
Asset-backed (ABS) or mortgage-backed (MBS) bonds	151	5,129	1,692	6,972
Other bonds in Israel	660	383	9	1,052
Other bonds abroad	605	1,497	-	2,102
Shares and mutual funds available for sale	1,720	-	-	1,720
Total securities available for sale	30,232	14,686	1,826	46,744
Securities held for trading:				
Government of Israel bonds	6,490	148	-	6,638
Foreign government bonds	357	-	-	357
Bonds of financial institutions in Israel	231	-	-	231
Bonds of financial institutions abroad	-	169	-	169
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	380	-	380
Other bonds in Israel	585	-	-	585
Other bonds abroad	15	662	-	677
Shares and mutual funds held for trading	595	-	-	595
Total securities held for trading	8,273	1,359	-	9,632
Assets in respect of derivative instruments:				
Shekel-index contracts (a)	-	47	95	142
Interest contracts (a)	15	7,341	637	7,993
Foreign currency contracts	5	1,743	992	2,740
Share contracts	372	256	20	648
Commodities and other contracts	74	76	12	162
Activity in Maof market	230	-	-	230
Total assets in respect of derivative instruments	696	9,463	1,756	11,915
Others:				
Credit and deposits in respect of lending of securites	2,398	3	-	2,401
Securities borrowed or purchased under agreements to resell	1,973	-	-	1,973
Other	107	-	-	107
Total others	4,478	3	-	4,481
Total assets	43,679	25,511	3,582	72,772

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

	As at 30 June 2013 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts (a)	-	157	139	296
Interest contracts (a)	15	7,772	-	7,787
Foreign currency contracts	3	3,193	335	3,531
Share contracts	373	284	-	657
Commodities and other contracts	75	80	-	155
Activity in Maof market	230	-	-	230
Total liabilities in respect of derivative instruments	696	11,486	474	12,656
Others:				
Deposits in respect of lending of securities	1,580	11	-	1,591
Securities lent or sold under agreements to repurchase	1,327	-	-	1,327
Others	107	-	-	107
Total others	3,014	11	-	3,025
Total liabilities	3,710	11,497	474	15,681

(a) 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 (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**

As at 30 June 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	-	-	1,733	1,733	(45)
Other assets	-	-	-	-	-
Total	-	-	1,733	1,733	(45)
As at 30 June 2013 (Unaudited)					
Fair value measurements using:					
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
(NIS millions)					
Collateral-dependent impaired credit	-	-	1,681	1,681	(118)
Other assets	-	-	-	-	-
Total	-	-	1,681	1,681	(118)
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 30 June 2014 (Unaudited)										Unrealized profits (losses) in respect of instruments held at 30 June 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	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 30 June 2014	
Assets											
Securities available for sale:											
Israeli government bonds	-	-	-	-	-	-	-	-	-	-	-
Foreign government bonds	6	(2)	-	-	-	-	-	-	-	4	-
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	121	(2)	-	-	-	(119)	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,513	(7)	(8)	313	-	(63)	-	-	-	1,748	-
Others in Israel	9	1	-	-	-	(1)	-	-	-	9	-
Others abroad	-	-	-	-	-	-	-	-	-	-	-
Total bonds available for sale	1,649	(10)	(8)	313	-	(183)	-	-	-	1,761	-
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	117	(13)	-	-	-	-	-	6	-	110	28
Interest contracts	425	79	-	-	-	(22)	-	-	-	482	68
Foreign currency contracts	724	(128)	-	320	-	-	-	-	-	916	448
Share contracts	5	27	-	-	-	-	-	-	-	32	28
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,271	(35)	-	320	-	(22)	-	6	-	1,540	572
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	2,920	(45)	(8)	633	-	(205)	-	6	-	3,301	572
Liabilities in respect of derivative instruments:											
Shekel-index contracts	84	(21)	-	-	-	-	-	7	-	70	7
Interest contracts	-	3	-	-	-	-	-	-	-	3	-
Foreign currency contracts	253	21	-	-	-	-	-	-	-	274	35
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	337	3	-	-	-	-	-	7	-	347	42
Total others	-	7	-	-	-	-	-	-	-	7	-
Total liabilities	337	10	-	-	-	-	-	7	-	354	42

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

	For the three months ended 30 June 2013 (Unaudited)										Unrealized
	Realized and unrealized profits (losses), net, included										profits (losses) in respect of instruments held at
	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	Adjustments from translation of financial statements	Transfers to Level 3 (a)	Transfers from Level 3 (a)	Fair value at 30 June 2013	30 June 2013
Assets											
Securities available for sale:											
Israeli government bonds	-	-	-	-	-	-	-	-	-	-	-
Foreign government bonds	6	-	-	-	-	-	-	-	-	6	1
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	117	4	(1)	-	-	(1)	-	-	-	119	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,343	(12)	(8)	414	(5)	(40)	-	-	-	1,692	(7)
Others in Israel	19	(9)	-	-	-	(1)	-	-	-	9	-
Others abroad	-	-	-	-	-	-	-	-	-	-	-
Total bonds available for sale	1,485	(17)	(9)	414	(5)	(42)	-	-	-	1,826	(6)
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts (a)	76	(8)	-	-	-	-	-	29	(2)	95	58
Interest contracts (a)	525	120	-	-	-	(8)	-	-	-	637	110
Foreign currency contracts	1,079	(340)	-	253	-	-	-	-	-	992	352
Share contracts	14	6	-	-	-	-	-	-	-	20	(1)
Commodities and other contracts	5	7	-	-	-	-	-	-	-	12	7
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,699	(215)	-	253	-	(8)	-	29	(2)	1,756	526
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,184	(232)	(9)	667	(5)	(50)	-	29	(2)	3,582	520
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts (a)	124	(2)	-	-	-	-	-	17	-	139	10
Interest contracts (a)	-	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	336	(1)	-	-	-	-	-	-	-	335	7
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	460	(3)	-	-	-	-	-	17	-	474	17
Total others	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	460	(3)	-	-	-	-	-	17	-	474	17

(a) Reclassified

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

For the six months ended 30 June 2014 (Unaudited)										
	Realized and unrealized profits (losses), net, included						Adjustments from translation of financial statements	Transfers to Level 3 (1)	Transfers from Level 3	Unrealized profits (losses) in respect of instruments held at 30 June 2014
	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				Fair value at 30 June 2014
Assets										
Securities available for sale:										
Israeli government	-	-	-	-	-	-	-	-	-	-
Foreign governments	7	(2)	-	-	(1)	-	-	-	-	4
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	120	(1)	-	-	-	(119)	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,733	(129)	(9)	382	(160)	(69)	-	-	-	1,748
Others in Israel	9	1	-	-	-	(1)	-	-	-	9
Others abroad	-	-	-	-	-	-	-	-	-	-
Total bonds available for sale	1,869	(131)	(9)	382	(161)	(189)	-	-	-	1,761
Shares available for sale	-	-	-	-	-	-	-	-	-	-
Total bonds for trading:										
Israeli government	-	-	-	-	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	-	-	-	-	-	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	-	-	-	-	-	-	-	-	-
Others in Israel	-	-	-	-	-	-	-	-	-	-
Others abroad	-	-	-	-	-	-	-	-	-	-
Total bonds available for trading	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:										
Shekel-index contracts	86	15	-	-	-	-	-	9	-	110
Interest contracts	391	135	-	-	-	(44)	-	-	-	482
Foreign currency contracts	1,334	(823)	-	405	-	-	-	-	-	916
Share contracts	-	32	-	-	-	-	-	-	-	32
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,811	(641)	-	405	-	(44)	-	9	-	1,540
Total others	-	-	-	-	-	-	-	-	-	-
Total assets	3,680	(772)	(9)	787	(161)	(233)	-	9	-	3,301
Liabilities										
Liabilities in respect of derivative instruments:										
Shekel-index contracts	75	(15)	-	-	-	-	-	10	-	70
Interest contracts	-	3	-	-	-	-	-	-	-	3
Foreign currency contracts	304	(30)	-	-	-	-	-	-	-	274
Share contracts	-	-	-	-	-	-	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	379	(42)	-	-	-	-	-	10	-	347
Total others	-	7	-	-	-	-	-	-	-	7
Total liabilities	379	(35)	-	-	-	-	-	10	-	354

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

For the six months ended 30 June 2013 (Unaudited)											
	Realized and unrealized profits (losses), net, included										Unrealized profits (losses) in respect of instruments held at 30 June 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	Adjustments from translation of financial statements	Transfers to Level 3 (a)	Transfers from Level 3 (a)	Fair value at 30 June 2013	
Assets											
Securities available for sale:											
Israeli government bonds	-	-	-	-	-	-	-	-	-	-	-
Foreign government bonds	11	-	-	-	(5)	-	-	-	-	6	1
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	123	(3)	-	-	-	(1)	-	-	-	119	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,401	(29)	(13)	668	(268)	(67)	-	-	-	1,692	4
Others in Israel	-	(9)	-	-	-	(1)	-	19	-	9	-
Others abroad	74	(1)	-	-	-	(73)	-	-	-	-	-
Total bonds available for sale	1,609	(42)	(13)	668	(273)	(142)	-	19	-	1,826	5
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts (a)	117	(36)	-	-	-	-	-	32	(18)	95	61
Interest contracts (a)	573	109	-	-	-	(45)	-	-	-	637	5
Foreign currency contracts	619	(233)	-	606	-	-	-	-	-	992	444
Share contracts	14	6	-	-	-	-	-	-	-	20	(2)
Commodities and other contracts	12	-	-	-	-	-	-	-	-	12	1
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,335	(154)	-	606	-	(45)	-	32	(18)	1,756	509
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	2,944	(196)	(13)	1,274	(273)	(187)	-	51	(18)	3,582	514
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts (a)	154	(8)	-	-	-	-	-	17	(24)	139	13
Interest contracts (a)	-	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	318	17	-	-	-	-	-	-	-	335	22
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	472	9	-	-	-	-	-	17	(24)	474	35
Total others	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	472	9	-	-	-	-	-	17	(24)	474	35

(a) 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	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 31 December 2013	
Assets											
Securities available for sale:											
Israeli government bonds	-	-	-	-	-	-	-	-	-	-	-
Foreign government bonds	11	(1)	-	-	(4)	-	1	-	-	7	-
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
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)	-	-	-	-	-	-	-	-	-
Commodities and other contracts	12	(12)	-	-	-	-	-	-	-	-	-
Activity in the 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	-	-	-	-	-	-	-	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-	-
Activity in the 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 30 June 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)	1,748	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	70-230 bp 2.5%-6% 20% 30%-40%	162 bp 4.25% 20% 35%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	83	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.59%
Interest contracts	27	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.96%
Foreign currency contracts	482	Discounting cash flows	Inflationary expectations	0.03%-100% (*)	1.96%
Foreign currency contracts	255	Discounting cash flows	Transaction counterparty risk	0.1%-1.08%	0.59%
	661	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.96%
Share contracts	32	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.96%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	70	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.59%
Foreign currency contracts	274	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.59%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,733	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 30 June 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)	1,692	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	93-545 bp 2%-6% 20% 40%-80%	232 bp 4.50% 20% 60%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	95	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
Interest contracts	637	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.56%
Foreign currency contracts	141	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
	851	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.56%
Share contracts	20	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.56%
Commodities and other contracts	12	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.56%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	139	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
Foreign currency contracts	335	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,681	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

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default. Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction. Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 9 – Interest income and expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013
	(Unaudited)			
	(NIS millions)			
A. Interest income (a)				
From credit to the public	2,543	2,805	4,481	5,301
From credit to governments	6	7	9	11
From deposits with Bank of Israel and cash	41	99	87	214
From deposits with banks	21	23	34	37
From securities borrowed or purchased under agreement to resell	3	4	7	10
From debentures (b)	198	253	395	481
Total interest income	2,812	3,191	5,013	6,054
B. Interest expenses (a)				
On deposits of the public	(536)	(884)	(844)	(1,660)
On deposits from governments	(1)	(3)	(3)	(5)
On deposits from banks	(11)	(11)	(18)	(20)
On securities lent or sold under agreement to repurchase	(3)	(3)	(5)	(8)
On debentures, bonds and subordinated notes	(356)	(451)	(481)	(760)
Total interest expenses	(907)	(1,352)	(1,351)	(2,453)
Total interest income, net	1,905	1,839	3,662	3,601
C. Details of the net effect of hedging derivative instruments interest income and expenses (b)				
Interest income	(20)	(13)	(11)	(27)
Interest expenses	-	(2)	-	(1)
D. Details of accumulated interest income from bonds				
Available for sale	162	196	341	379
For trading	36	57	54	102
Total included in interest income	198	253	395	481

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS (39) million and NIS 57 million for the three month and six month period ended on 30 June 2014 (NIS 29 million and NIS 57 million for the three month and six month period ended on 30 June 2013 respectively).

Note 10 – Non-interest financing income

	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013
	(Unaudited)		(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 (a)	2	6	3	9
Net income (expense) from ALM derivative instruments (b)	(429)	(146)	(314)	(781)
Total from activity in derivative instruments	(427)	(140)	(311)	(772)
A.2. From investment in bonds				
Profits from sale of bonds available for sale (g)	35	35	117	135
Losses from sale of bonds available for sale (g) (h)	-	(11)	-	(12)
Total from investment in bonds	35	24	117	123
A.3. Exchange rate differentials, net	436	189	304	876
A.4. Profits (losses) from investment in shares				
Profits from sale of shares available for sale (d) (g)	36	109	174	344
Losses from sale of shares available for sale (g)	(5)	(26)	(16)	(27)
Profit from sale of shares in companies included on equity basis	-	17	-	17
Dividend from shares available for sale	4	15	6	20
Total from investment in shares	35	115	164	354
A.5. Profits in respect of loans sold (c)	-	34	-	77
Total non-interest financing income in respect of activities not for trading purposes	79	222	274	658
B. Non-interest financing income in respect of activities not for trading purposes				
Income (expenses) net in respect of other derivative instruments	17	6	4	13
Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net (e)	73	(29)	230	(77)
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (f)	3	13	(13)	29
Total from trading activities	93	(10)	221	(35)
Total non-interest financing income in respect of activities not for trading purposes	172	212	495	623

See notes on next page.

Note 10 – Non-interest financing income (cont'd)**Notes**

- (a) Excluding the effective part of hedging relationships.
- (b) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.
- (c) During 2013 a loan was sold of NIS 250 million and NIS 350 million for the three and six month period ended 30 June 2013.
- (d) Including mainly profit from sale of shares in Tower and Electra of NIS 22 million and NIS 17 million respectively, before the effect of tax in the second quarter of 2014 and profit from the sale of shares in Partner and Tower of NIS 70 million and NIS 39 million before the effect of tax, respectively in the first quarter of 2014.
Profit from the sale of shares in Cesarstone of NIS 86 million before the effect of tax was recorded in the second quarter of 2013, and profit from the sale of shares in Migdal and Partner of NIS 180 million and NIS 34 million before the effect of tax respectively, was recorded in the first quarter of 2013.
- (e) Of which part of the profits (losses) related to bonds held for trading still held at the balance sheet date in the amount of NIS 69 million (NIS 117 million at 30 June 2013).
- (f) Of which part of the profits (losses) related to shares held for trading still held at the balance sheet date in the amount of NIS 20 million (NIS 38 million at 30 June 2013).
- (g) Including provisions for impairment of NIS 16 million for the three and six month period ended 30 June 2013).
- (h) Reclassified from accumulated other comprehensive income.

Note 11 - Operating Segments

	For the three months ended 30 June 2014 (Unaudited)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income, net - from outside entities	874	302	550	418	(1)	(238)	-	1,905
Non-interest income - from outside entities	408	134	105	85	152	333	33	1,250
Intersegmental income (expenses)	(175)	(54)	(162)	(18)	82	334	(7)	-
Total income	1,107	382	493	485	233	429	26	3,155
Expenses (income) in respect of credit losses	83	31	(127)	7	-	(10)	-	(16)
Net profit (loss) attributable to shareholders of the banking corporation	67	84	276	150	(550)	145	118	290
	For the three months ended 30 June 2013 (Unaudited)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	760	287	676	409	(20)	(274)	1	1,839
Non-interest income (expenses) - from outside entities	393	143	157	144	146	223	40	1,246
Intersegmental income (expenses)	(54)	(65)	(310)	(72)	108	435	(42)	-
Total income	1,099	365	523	481	234	384	(1)	3,085
Expenses (income) in respect of credit losses	41	16	(82)	113	2	(6)	-	84
Net profit (loss) attributable to shareholders of the banking corporation	31	64	276	50	29	31	(7)	474

Note 11 - Operating Segments (cont'd)

	For the six months ended 30 June 2014 (Unaudited)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income, net - from outside entities	1,470	584	977	803	12	(184)	-	3,662
Non-interest income - from outside entities	815	267	265	262	289	676	50	2,624
Intersegmental income (expenses)	(74)	(88)	(250)	(90)	142	373	(13)	-
Total income	2,211	763	992	975	443	865	37	6,286
Expenses (income) in respect of credit losses	121	50	(214)	(21)	(1)	(2)	-	(67)
Net profit (loss) attributable to shareholders of the banking corporation	118	171	542	305	(548)	231	96	915
	For the six months ended 30 June 2013 (Unaudited)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	1,346	556	1,296	801	(54)	(345)	1	3,601
Non-interest income (expenses) - from outside entities	800	283	326	245	272	662	127	2,715
Intersegmental income (expenses)	66	(114)	(586)	(84)	260	570	(112)	-
Total income	2,212	725	1,036	962	478	887	16	6,316
Expenses (income) in respect of credit losses	127	58	(128)	145	3	(48)	-	157
Net profit (loss) attributable to shareholders of the banking corporation	70	126	533	165	59	149	(58)	1,044

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	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 30 June 2014 (Unaudited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)					
Balance at 31 March 2014	133	(322)	108	(81)	(3)	(78)
Net change in the period	38	(35)	12	15	(1)	16
Balance at 30 June 2014	171	(357)	120	(66)	(4)	(62)

For the three months ended 30 June 2013 (Unaudited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)					
Balance at 31 March 2013	340	(203)	108	245	(5)	250
Net change in the period	(139)	(40)	(22)	(201)	-	(201)
Balance at 30 June 2013	201	(243)	86	44	(5)	49

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

Note 12 – Accumulated Other Comprehensive Income (Loss) (cont'd)**A. Changes in accumulated other comprehensive income (loss), after effect of tax (cont'd)**

For the six months ended 30 June 2014 (Unaudited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non- controlling interests	Other comprehensive income attributed to shareholders of the Bank
(NIS millions)						
Balance at 31 December 2013	179	(337)	123	(35)	(4)	(31)
Net change in the period	(8)	(20)	(3)	(31)	-	(31)
Balance at 30 June 2014	171	(357)	120	(66)	(4)	(62)

For the six months ended 30 June 2013 (Unaudited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non- controlling interests	Other comprehensive income attributed to shareholders of the Bank
(NIS millions)						
Balance at 31 December 2013	494	(149)	112	457	(1)	458
Net change in the period	(293)	(94)	(26)	(413)	(4)	(409)
Balance at 30 June 2013	201	(243)	86	44	(5)	49

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	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non- controlling interests	Other comprehensive income attributed to shareholders of the Bank
(NIS millions)						
Balance at 31 December 2012	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)

(a) 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.

(b) 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 30 June						For the six months ended 30 June						For the year ended 31 December		
	2014			2013			2014			2013			2013		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	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	129	(45)	84	(118)	47	(71)	330	(124)	206	(12)	-	(12)	229	(79)	150
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss	(66)	20	(46)	(107)	39	(68)	(275)	61	(214)	(440)	159	(281)	(747)	282	(465)
Net change in the period	63	(25)	38	(225)	86	(139)	55	(63)	(8)	(452)	159	(293)	(518)	203	(315)
Translation adjustments (a)															
Adjustments for translation of financial statements	(63)	-	(63)	(55)	-	(55)	(32)	-	(32)	(171)	-	(171)	(318)	-	(318)
Hedges (b)	45	(17)	28	24	(9)	15	24	(12)	12	121	(44)	77	203	(73)	130
Net change in the period	(18)	(17)	(35)	(31)	(9)	(40)	(8)	(12)	(20)	(50)	(44)	(94)	(115)	(73)	(188)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method															
	12	-	12	(22)	-	(22)	(3)	-	(3)	(26)	-	(26)	11	-	11
Net change in the period	12	-	12	(22)	-	(22)	(3)	-	(3)	(26)	-	(26)	11	-	11
Total net change in the period	57	(42)	15	(278)	77	(201)	44	(75)	(31)	(528)	115	(413)	(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	58	(42)	16	(278)	77	(201)	44	(75)	(31)	(524)	115	(409)	(619)	130	(489)

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

Note 13 – Events after the Balance Sheet Date

Cooperation Arrangement with Bank Julius Baer and the sale of activity in Switzerland

According to the cooperation arrangement, Leumi Group will refer to Julius Baer existing and future customers with private banking needs in Europe, and at the same time Julius Baer will refer to Leumi existing and future customers with private banking needs in Israel.

This strategic partnership will allow us to offer our customers, who are interested in private banking services in Europe or the Far East, the best value proposals and private banking services of the highest level.

In addition, as part of the cooperation, the unit in Switzerland, Leumi Private Bank, will sell to Julius Baer its assets as defined in the agreement, for consideration of CHF 10 million in excess of the net assets transferred, subject to adjustments. At the same time as the completion of the transaction and in coordination with the relevant authorities, Leumi Private Bank will take steps to close its banking activity, and to allocate shareholders' equity as a dividend to the Bank.

Simultaneously, the parties have agreed on their intention to enter into a transaction in accordance with an outline plan to be agreed between the parties to sell Bank Leumi Luxembourg to Julius Baer in consideration of the equity of Bank Leumi Luxembourg.

The agreement between Leumi Private Bank and Julius Baer includes an undertaking for various indemnities for a two year period. The amount of indemnity is limited to the amount derived from the shareholders' equity of the units in Switzerland and Luxembourg, as at 31 March 2014 (around CHF 300 million). The undertaking for indemnification is backed by a guarantee of the Bank in the event that Leumi Private is unable to fulfill the indemnity undertaking.

The transaction is subject to the approval of the general meeting of Leumi Private Bank.

The Bank estimates that, at this stage, the transaction is unlikely to have a significant impact on the results of the Group's operations and the consolidated balance sheet.

As of the end of June 2014, Leumi Private Bank has assets under management amounting to CHF 5.9 billion and Leumi Luxembourg has assets under management amounting to CHF 1.3 billion.

Mobileye

On 1 August 2014, there was an IPO on the New York Stock Exchange of Mobileye N.V. (hereinafter: "Mobileye"). Prior to the offering, Leumi Partners Ltd., a subsidiary of the Bank, held 4,124,535 shares representing 2% of the issued and paid up share capital. As part of the IPO, which took place at a price per share of US \$25, and after the exercising of an option given to the underwriters of the offering to purchase additional shares, Leumi Partners sold 2,049,271 shares for US \$23.55 per share (the offering price less underwriting commissions and expenses) for total proceeds of US \$48,254,597. After the offering, which included the allocation of shares together with a sale by the shareholders, Leumi Partners holds about 1% of the issued and paid up share capital of Mobileye.

The sale is expected to produce a gain for the Bank after tax of NIS 142.7 million which will be included in the financial statement of the third quarter of 2014.