Q3

CONDENSED FINANCIAL STATEMENTS

30.9.2013

ISRAEL DISCOUNT BANK

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT REVIEW

CONDENSED FINANCIAL STATEMENTS – SEPTEMBER 30, 2013

THE DISCOUNT GROUP - GENERAL OVERVIEW AND PRINCIPAL DATA

At the meeting of the Board of Directors held on November 27, 2013, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for September 30, 2013 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

Principal operations during the reviewed period. The Bank continued, as planned, in the reported period its preparations for the implementation of the Basel III instructions.

In the Reporting Period, the principles of the new strategic plan were formulated, for the purpose of bringing them for the approval of the Board of Directors. The Bank is expected to complete the preparation of the plan near the beginning of 2014.

The Bank continues to manage "the family program" as an ongoing plan creating value to existing customers as well as to new customers with family relations among them. During the reported period the Bank offered additional unique benefits, such as "family loans" (For details see "Retail Segment – General" under "Activity of the Group according to principal segments of operation" below).

On August 21, 2013, the Bank's President & CEO, Mr. Reuven Spiegel, informed of his decision to terminate his tenure of office at the Bank. On October 17, 2013, the Bank's Board of Directors decided to appoint Ms. Lilach Asher-Topilsky President & CEO of the Bank (see below "Board of Directors and Management").

PRINCIPAL DATA

PROFITABILITY

	For the nine months ended September 30		
	2013	2012	Rate of change in %
	In NIS millions		
Interest income, net	3,179	3,393	(6.3)
Credit loss expenses	457	474	(3.6)
Income before taxes	919	945	(2.8)
Provision for taxes on income	254	300	(15.3)
Income after taxes	665	645	3.1
Net income attributed to the Bank's shareholders	802	633	26.7
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in FIBI's shares	802	706	13.6
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.76	0.60	
The ratio of income before taxes to total equity in % (1)	11.8	13.0	
The ratio of income after taxes to total equity in % (1)	8.5	8.8	
Return on equity attributed to the Bank's shareholders, in % (1)	9.0	7.7	
Return on equity attributed to the Bank's shareholders, in % - disregarding the provision for impairment in value of the investment in FIBI's shares(1)	9.0	8.6	

Footnote:

(1) On an annual basis.

BALANCE SHEET

	September 30, 2013	September 30, 2012	December 31, 2012	Change in % compared to	
	In NIS millions			September 30, 2012	December 31, 2012
Total assets	200,025	205,240	201,012	(2.5)	(0.5)
Credit to the public, net	116,498	119,040	117,611	(2.1)	(0.9)
Securities	47,124	45,334	46,001	3.9	2.4
Deposits from the public	152,111	154,688	151,935	(1.7)	0.1
Equity attributed to the Bank's shareholders	12,228	11,613	11,838	5.3	3.3
Total equity	12,531	11,943	12,134	4.9	3.3

FINANCIAL RATIOS

	September 30, 2013	September 30, 2012	December 31, 2012
	in %		
Ratio of total equity to total assets	6.3	5.8	6.0
Ratio of capital to risk assets	14.4	14.2	14.3
The core capital ratio	9.3	8.4	8.6
Ratio of credit loss expenses to the average balance of credit to the public [(1)]	0.51	0.53	0.61
Ratio of credit to the public, net to total assets	58.2	58.0	58.5
Ratio of credit to the public, net to deposits from the public	76.6	77.0	77.4
Ratio of deposits from the public to total assets	76.0	75.4	75.6
Ratio of total non-interest income to operating expenses	59.6	55.6	55.9
Ratio of operating expenses to total income	76.4	75.8	75.5
Risk assets adjusted return[(2)]	10.2	8.3	7.8

Footnotes:

(1) On an annual basis.

(2) Return on core capital computed on the average balance of risk assets (September 30, 2013 - 8.0%, September 30, 2012 and December 31, 2012 - 7.5%).

MARKET SHARE

Based on data relating to the banking industry as of June 30, 2013, published by the Bank of Israel, the Discount Bank Group’s share in the total of the five largest banking groups in Israel was as follows:

	June 30, 2013	December 31, 2012
	In %	
Total assets	16.2	16.5
Credit to the public, Net	14.4	14.6
Deposits from the public	16.3	16.4
Interest income, net	16.8	17.5
Total non-interest income	20.0	19.6

DEVELOPMENT OF THE DISCOUNT SHARE

	Closing price at end of the trading day			Rate of change in the first nine months of 2013 in %
	December 31, 2012	September 30, 2013	November 24, 2013	
Discount share	614	635	693	3.4
The Banks index	1,137.62	1,214.08	1,320.34	6.7
The TA 25 index	1,185.60	1,264.98	1,352.96	6.7
Discount market value (in NIS billions)	6.47	6.69	7.30	3.4

FORWARD-LOOKING INFORMATION

Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968.

The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans.

Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to...", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain.

The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets.

The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.

EXPLANATIONS REGARDING THE BUSINESS CONDITION OF THE GROUP

INCOME AND PROFITABILITY

Net profit attributed to the Bank's shareholders for the first nine months of 2013 totalled NIS 802 million, compared with NIS 633 million in the corresponding period last year, an increase of 26.7%. With the elimination of the provision for impairment of the Bank's investment in shares of FIBI (see hereunder), the income for the first nine months of 2012 would have amounted to NIS 706 million and the increase would have reached a rate of 10.8%.

Return on equity net attributed to the Bank's shareholders for the first nine months of 2013 reached a rate of 9.0%, on an annual basis, compared with a rate of 7.7% for the corresponding period last year, and 7.1% for all of 2012. With the elimination of the provision for impairment of the Bank's investment in shares of FIBI (see hereunder), the return on equity in the first nine months of 2012 would have reached an annualized rate of 8.6%.

The following are the main factors that had an effect on the business results of the Group in the first nine months of 2013, compared with the corresponding period last year:

a. A decrease in interest income, net, of NIS 214 million, (6.3%).
b. A decrease in credit loss expenses, of NIS 17 million (3.6%).
c. An increase in the total non-interest income, of NIS 185 million (7.5%), affected by an increase of NIS 223 million in non-interest financing income (76.1%), a decrease of NIS 5 million in commissions (0.2%) and a decrease of NIS 33 million in other income (21.3%).
d. An increase of NIS 14 million in operating and other expenses (0.3%), affected, mainly, by a decrease of NIS 39 million in payroll and related expenses (1.5%), which was partly offset by a decline of NIS 20 million in other expenses (2.3%).
e. Tax provision of NIS 254 million on earnings in the first nine months of 2013, compared with NIS 300 million in the corresponding period last year. The reduction in the tax expense for the reported period, derives mainly from the increase in deferred tax assets, due to the increase in tax rates (see Note 18 to the condensed financial statements).
f. An increase of NIS 133 million in the Bank’s share in the profits of affiliated companies after tax effect, which was affected by the update (reduction) in the computation of the provision for taxes on the Bank's share in profits of FIBI, in an amount of NIS 45 million (of which NIS 42 million in respect of prior years). The income in the first nine months of 2012 is after the provision for impairment in value of the Bank's investment in shares of FIBI, in a net amount of NIS 73 million (see Note 14 D below).

DEVELOPMENTS IN INCOME AND EXPENSES

Following are the developments in certain income statement items in the first nine months of 2013, compared with the first nine months of 2012:

	For the nine months ended September 30,		
	2013	2012	Rate of Change
	In NIS millions		in %
Interest income	5,291	(1)6,210	(14.8)
Interest expenses	2,112	(1)2,817	(25.0)
Interest income, net	3,179	3,393	(6.3)
Credit loss expenses	457	474	(3.6)
Net interest income after credit loss expenses	**2,722**	**2,919**	**(6.7)**
Non-interest Income			
Non-interest financing income	516	(1)293	76.1
Commissions	2,020	(1)2,025	(0.2)
Other income	122	(1)155	(21.3)
Total non-interest income	**2,658**	**2,473**	**7.5**
Operating and other Expenses			
Salaries and related expenses	2,698	(1)2,659	1.5
Maintenance and depreciation of buildings and equipment	931	(1)928	0.3
Amortization of intangible assets	-	8	-
Other expenses	832	(1)852	(2.3)
Total operating and other expenses	**4,461**	**4,447**	**0.3**
Income before taxes	919	945	(2.8)
Provision for taxes on income	254	300	(15.3)
Income after taxes	665	645	3.1
Bank’s share in income of affiliated companies, net of tax effect	166	33	403.0
Net income attributed to the non-controlling rights holders in consolidated companies	(29)	(45)	(35.6)
Net income attributed to Bank's shareholders	**802**	**633**	**26.7**
Return on equity attributed to the Bank's shareholders, in %(3)	9.0	7.7	
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in FIBI's shares	802	(2)706	13.6
Net return on equity attributed to the Bank's shareholders, in % - disregarding the provision for impairment in value of the investment in FIBI's shares(3)	9.0	(2)8.6	

Footnotes:

(1) Reclassified, see Note 1 D 2 to the financial statements.

(2) See Note 14 to the financial statements.

(3) On an annual basis.

Following are the developments in certain income statement items in the third quarter of 2013, compared with the second quarter of 2013 and compared with the third quarter of 2012:

	2013		2012		
	Q3	Q2	Q3	compared to Q2 2013	compared to Q3 2012
	In NIS millions			in %	
Interest income	1,865	1,758	2,076	6.1	(10.2)
Interest expenses	771	717	934	7.5	(17.5)
Interest income, net	1,094	1,041	1,142	5.1	(4.2)
Credit loss expenses	171	141	233	21.3	(26.6)
Net interest income after credit loss expenses	**923**	**900**	**909**	**2.6**	**1.5**
Non-interest Income					
Non-interest financing income	90	236	(1)94	(61.9)	(4.3)
Commissions	684	668	(1)693	2.4	(1.3)
Other income	65	20	(1)73	225.0	(11.0)
Total non-interest income	**839**	**924**	**860**	**(9.2)**	**(2.4)**
Operating and other Expenses					
Salaries and related expenses	889	933	(1)882	(4.7)	0.8
Maintenance and depreciation of buildings and equipment	321	303	(1)309	5.9	3.9
Amortization of intangible assets	-	-	3	-	-
Other expenses	275	268	(1)300	2.6	(8.3)
Total operating and other expenses	**1,485**	**1,504**	**1,494**	**(1.3)**	**(0.6)**
Income before taxes	277	320	275	(13.4)	0.7
Provision for taxes on income	47	89	78	(47.2)	(39.7)
Income after taxes	230	231	197	(0.4)	16.8
Bank’s share in income of affiliated companies, net of tax effect	56	42	39	33.3	43.6
Net income attributed to the non-controlling rights holders in consolidated companies	(10)	(10)	(15)	-	(33.3)
Net income attributed to Bank's shareholders	**276**	**263**	**221**	**4.9**	**24.9**
Net return on equity attributed to the Bank's shareholders, in %(2)	9.5	9.0	7.9		

Footnotes:

(1) Reclassified, see Note 1 D 2 to the financial statements.

(2) On an annual basis.

Following are details regarding material changes in statement of income items:

Interest income, net. In the first nine months of 2013, interest income, net, amounted to NIS 3,179 million compared with NIS 3,393 million in the corresponding period last year, a decrease of 6.3%. The decline in the interest income, net, in the amount of NIS 214 million, is explained by a negative price impact of approx. NIS 223 million, which was partly offset by a positive quantitative effect in the amount of approx. NIS 9 million (see Schedule "A" to the Management Review, below).

The decrease in interest income, net, is mainly due to the effect of the declining interest rates on the return on assets.

The interest spread, excluding derivatives, reached a rate of 2.14% in the first nine months of 2013, compared with 2.22% in the corresponding period last year.

The average balance of interest bearing assets has declined by a rate of approx. 2.5%, from an amount of NIS 182,844 million to NIS 178,190 million, and the average balance of interest bearing liabilities has declined by a rate of approx. 5.1%, from an amount of NIS 161,809 million to NIS 153,579 million.

Non-interest financing income. In the first nine months of 2013, non-interest financing income amounted to NIS 516 million, compared to NIS 293 million in the corresponding period last year, an increase of 76.1%.

Following are details regarding non-interest financing income:

	For the nine months ended September 30		
	2013	2012	Change
	in NIS millions		
From operations in derivative instruments	(499)	141	(640)
From investments in bonds	380	224	156
Net exchange rate differences	525	(139)	664
From investments in shares	98	68	30
From sale of loans	12	(1)	13
Total non-interest financing income	**516**	**293**	**223**

The increase in income from activity in derivative instruments stems mostly from negative exchange rate differences amounting to NIS 698 million, which were offset by an increase in the amount of NIS 84 million in the adjustments to fair value of derivative financial instruments.

The growth in income from investments in bonds stems mainly from the rise in profits from the sale of available-for-sale bonds.

The net increase in exchange rate differences stems mainly from positive exchange rate differences on balance-sheet assets and liabilities, against which transactions in derivative instruments were conducted, the exchange rate differences of which increased the expenses from activity in derivative instruments, as stated above.

The increase in the income from investment in shares is mainly due to an increase in the gain on the realization of investments in funds.

Rates of income and expenses. Interest income, net, is presented in Schedule "A" to the Management Review. In explaining the Bank's interest rate gap from current operations, one should add the effect of operations in ALM derivatives (not including exchange differences and operation in options), as detailed in the following Table:

Rates of interest income and expenses:

	For the nine months ended September 30					
	2013			2012		
	Average balance	Interest income (expense)	Rate of income (expense)	Average balance	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Total interest bearing assets	178,190	5,291	3.98	182,844	6,210	4.55
ALM derivatives	155,421	2,219		154,231	2,664	
Total	**333,611**	**7,510**		**337,075**	**8,874**	
After elimination of adjustments to fair value of ALM derivatives		(324)			(103)	
Total	**333,611**	**7,186**	**2.88**	**337,075**	**8,771**	**3.48**
Total interest bearing liabilities	(153,579)	(2,112)	(1.84)	(161,809)	(2,817)	(2.33)
ALM derivatives	(156,341)	(2,256)		(155,697)	(2,743)	
Total	**(309,920)**	**(4,368)**		**(317,506)**	**(5,560)**	
After elimination of adjustments to fair value of ALM derivatives		147			10	
Total	**(309,920)**	**(4,221)**	**(1.82)**	**(317,506)**	**(5,550)**	**(2.34)**
Interest income, net, from current operations and the interest rate gap		2,965	1.06		3,221	1.14

Interest income from current operations, including ALM derivatives, amounted in the first nine months of 2013, to NIS 2,965 million, compared to NIS 3,221 million in the corresponding period last year, a decrease of 7.9%.

Interest margin, from current operations, including ALM derivatives reached a rate of 1.06% in the first nine months of 2013, compared with 1.14% in the corresponding period last year.

Interest income from current operations, including ALM derivatives, amounted in the third quarter of 2013, to NIS 1,011 million, compared to NIS 1,100 million in the corresponding period last year, a decrease of 8.1% and compared to NIS 969 million in the second quarter of 2013, an increase of 4.3%.

Interest margin, from current operations, including ALM derivatives reached a rate of 1.06% in the third quarter of 2013, compared with 1.15% in the corresponding period last year and compared with 1.07% in the second quarter of 2013.

The following is the development of the interest income, net by segments of operations:

	For the three months ended September 30			For the nine months ended September 30		
	2013	2012[(1)]		2013	2012[(1)]	
	In NIS millions		Change in %	In NIS millions		Change in %
Retail - household segment	295	375	(21.3)	919	1,121	(18.0)
Retail- small bussiness segment	187	198	(5.6)	557	578	(3.6)
Corporate banking segment	248	278	(10.8)	727	798	(8.9)
Middle market banking segment	134	150	(10.7)	405	452	(10.4)
Private banking segment	80	101	(20.8)	240	297	(19.2)
Financial management segment	150	40	275.0	331	147	125.2
Total	**1,094**	**1,142**	**(4.2)**	**3,179**	**3,393**	**(6.3)**

Footnote:
(1)Reclassified, See "General" at the beginning of "Activity of the Group according to principal segments of operations".

Credit loss expenses in the first nine months of 2013 totalled NIS 457 million, compared with NIS 474 million in the corresponding period last year, a decrease of 3.6%. Expenses in respect of credit losses in the first nine months of 2013 include an increase in the group allowance, mainly, as a result from changes in the allowance coefficients.

For details as to the components of the credit loss expenses, see Note 3 to the condensed financial statements.

Following are details of the quarterly development in the credit loss expenses:

	2013			2012			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions						
On a specific basis	102	105	101	230	208	94	95
On a group basis	69	36	44	22	25	24	28
Total	171	141	145	252	233	118	123
Rate of credit loss expenses to the average balance of credit to the public[(1)]:							
The rate in the quarter	0.58%	0.48%	0.49%	0.84%	0.78%	0.40%	0.42%
Cumulative rate since the beginning of the year	0.51%	0.48%	0.49%	0.61%	0.53%	0.41%	0.42%

Footnote:
(1) On an annual basis.

Commissions in the first nine months of 2013, amounted to NIS 2,020 million, compared to NIS 2,025 million in the corresponding period last year, a decrease of 0.2%.

Following is the distribution of the commissions:

	For the nine months ended September 30,		
	2013	2012	Change
	in NIS millions		in %
Ledger fees	439	450	(2.4)
Credit cards	696	699	(0.4)
Operations in securities and in certain derivative instruments	224	212	5.7
Commissions from the distribution of financial products	85	72	18.1
Management, operational and trusteeship services for institutional bodies	12	18	(33.3)
Handling credit	211	244	(13.5)
Conversion differences	94	81	16.0
Foreign trade services	40	42	(4.8)
Net income from credit portfolio services	12	12	-
Commissions on financing activities	139	135	3.0
Other commissions	68	60	13.3
Total commissions	**2,020**	**2,025**	**(0.2)**

Following is the condensed statement of comprehensive income:

	For the nine months ended September 30,		
	2013	2012	Change
	in NIS millions		in %
Net income attributed to the Bank's shareholders	802	633	26.7
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss), before taxes[(1)]	(566)	406	
Effect of attributed taxes	154	(128)	
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	(412)	278	
Comprehensive income, attributed to the Bank's shareholders	**390**	**911**	**(57.2)**

Footnote:

(1) The change in the other comprehensive income before taxes item is due mainly to the realization of securities from the available-for-sale portfolio, the gains on which were classified to net income. For additional details, see Note 13.

Salaries and related expenses amounted to NIS 2,698 million in the first nine months of 2013, compared with NIS 2,659 million in the corresponding period last year, an increase of 1.5%. The increase is mainly due to a provision for bonuses, in the Bank and in a consolidated company, in accordance with the business results in the first nine months of 2013.

DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at September 30, 2013, amounted to NIS 200,025 million, compared with NIS 201,012 million at the end of 2012, a decrease of 0.5%.

Following are the developments in the principal balance sheet items:

	September 30, 2013	December 31, 2012	Rate of changes in %
	in NIS millions		
Assets			
Cash and deposits with banks	22,758	24,100	(5.6)
Securities	47,124	46,001	2.4
Credit to the public, net	116,498	117,611	(0.9)
Liabilities			
Deposits from the public	152,111	151,935	0.1
Deposits from banks	3,833	3,720	3.0
Securities loaned or sold under repurchase agreements	4,227	5,452	(22.5)
Subordinated capital notes	12,089	12,284	(1.6)
Equity attributed to the Bank's shareholders	12,228	11,838	3.3
Total equity	12,531	12,134	3.3

Following are details regarding credit to the public, securities and deposits from the public.

CREDIT TO THE PUBLIC

General. Credit to the public, net, (after provision for credit losses) as at September 30, 2013 totaled NIS 116,498 million, compared with NIS 117,611 million at the end of 2012, a decrease of 0.9%.

For details regarding credit risk management, including strategy and policy relating to the credit risk management field, the structure and organization of credit risk management functions and more, see "Credit risk management" under "Exposure to risks and risk management" below and in 2012 Annual Report (pp. 133-149).

COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

Following are data on the composition of net credit to the public by linkage segments:

	September 30, 2013		December 31, 2012		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	68,525	58.8	68,444	58.2	0.1
CPI-linked shekels	17,974	15.4	17,542	14.9	2.5
Foreign currency and foreign currency-linked shekels	29,999	25.8	31,625	26.9	(5.1)
Total	**116,498**	**100.0**	**117,611**	**100.0**	**(0.9)**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 5.1% compared with December 31, 2012. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$10 million, an increase of 0.1% as compared to December 31, 2012. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 0.5% as compared to December 31, 2012.

COMPOSITION OF CREDIT TO THE PUBLIC BY SEGMENTS OF OPERATIONS

The following is a review of developments in the balance of net credit to the public, by segments of operations:

	September 30, 2013		December 31, 2012		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in-%
Retail - household segment	39,116	33.6	38,199	32.5	2.4
Of which - housing loans	19,739	16.9	19,440	16.5	1.5
Retail - small bussiness segment	12,806	11.0	12,032	10.2	6.4
Corporate banking segment	42,304	36.3	45,467	38.7	(7.0)
Middle market banking segment	18,705	16.1	18,291	15.6	2.3
Private banking segment	3,567	3.0	3,622	3.0	(1.5)
Total	**116,498**	**100.0**	**117,611**	**100.0**	**(0.9)**

COMPOSITION OF CREDIT TO THE PUBLIC BY MAJOR ECONOMIC SECTORS

Following are the developments of credit to the public risk, by main economic sectors:

	September 30, 2013		December 31, 2012		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Agriculture	1,259	0.7	1,485	0.8	(15.2)
Industry	23,367	12.4	(1)23,641	12.4	(1.2)
Construction and real estate - construction	14,780	7.9	15,854	8.3	(6.8)
Construction and real estate - real estate activity	17,262	9.2	(1)17,268	9.0	(0.0)
Electricity and water	3,514	1.9	3,450	1.8	1.8
Commerce	20,050	10.7	19,691	10.3	1.8
Hotels, hotel services and food	3,014	1.6	2,926	1.5	3.0
Transportation and storage	4,044	2.2	4,952	2.6	(18.3)
Communications and computer services	2,624	1.4	2,617	1.4	0.3
Financial services	23,321	12.4	(1)26,614	13.9	(12.4)
Other business services	8,482	4.5	9,563	5.0	(11.3)
Public and community services	4,596	2.4	(1)4,325	2.3	6.3
Private individuals - housing loans	20,937	11.1	20,725	10.8	1.0
Private individuals - other	40,631	21.6	(1)37,961	19.9	7.0
Total overall credit to the public risk	**187,881**	**100.0**	**191,072**	**100.0**	**(1.7)**
Banks	12,423		13,286		
Governments	31,730		30,346		
Total	**232,034**		**234,704**		

Footnote:
(1) Reclassified - improving classification in different sectors.

The above data shows that compared with the end of 2012, an increase occurred mostly in the overall credit risk relating to private individuals and public and community services. Credit risk relating to the remaining economic sectors for the most declined, particularly as regards the financial services, construction and transportation and storage. The growth in credit risk to private individuals coupled with the decline in the overall credit risk to the public, led to an increase in weight of credit to private individuals out of the total credit to the public. For additional details see Schedule D to the Management review.

DEVELOPMENT OF PROBLEMATIC CREDIT RISK

Non-performing assets, impaired debts accruing interest income, commercial criticized exposure and non impaired debts in arrears for 90 days or over:

	September 30,2013			December 31,2012		
	Credit Risk					
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
1. Problematic Credit Risk[(1)]:						
Impaired credit risk	[(3)(4)]4,556	146	4,702	[(3)(4)]5,527	140	5,667
Substandard credit risk	1,203	22	1,225	[(7)]581	31	612
Special mention credit risk[(2)]	[(5)(6)]2,286	452	2,738	[(5)(6)(7)(8)]2,217	546	2,763
Total Problematic Credit Risk	**8,045**	**620**	**8,665**	**8,325**	**717**	**9,042**
Of which: Non impaired debts, in arrears for 90 days or more[(2)]	559	-	-	667	-	-
2. Non-Performing Assets						
Impaired debts - non accruing interest income	4,094	-	-	4,694	-	-
Assets received in respect of credit settlement	2	-	-	-	-	-
Total Non-Performing Assets	**4,096**	**-**	**-**	**4,694**	**-**	**-**

Footnotes:

(1) Impaired credit, substandard credit and credit under special mention risks

(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists and in respect of housing loans that are in arrears for 90 days or more for which an allowance based on the extent of arrears does not exist.

(3) Including non accruing corporate bonds in an amount of NIS 10 million and non-accruing non-corporate bonds in an amount of NIS 18 million (December 31, 2012- NIS 22 million and NIS 48 million respecttively).

(4) Including problematic balance sheet credit risk with respect to certain debentures of bank holding companies (TRUPS), which are held by a subsidiary, in an amount of NIS 14 and 12 million as of September 30, 2013, December 31, 2012, respectively.

(5) Including accruing corporate bonds in an amount of NIS 7 million (December 31, 2012- NIS 72 million and accruing non-corporate bonds in an amount of NIS 37 million).

(6) Including problematic balance sheet credit risk with respect to certain debentures of bank holding companies (TRUPS), which are held by a subsidiary, in an amount of NIS 96 and 259 million as of September 30, 2013, December 31, 2012, respectively.

(7) Reclassified as a result of improvements in the classification of housing loans.

(8) Reclassified in order to present certain debts in problematic credit (following classification in a subsidiary company).

Following are details on credit to the public, as specified in Note 3 to the condensed financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (accruing interest and non- accruing) amounted at September 30, 2013 to approx. NIS 4,514 million, compared to NIS 5,445 million at December 31, 2012, a decrease of 17.1%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at September 30, 2013 to approx. NIS 4,053 million, compared to NIS 4,612 million at December 31, 2012, a decrease at a rate of 12.1%.

Hereunder is the ratio of problematic debts to total debt in principal economic sectors:

	September 30, 2013			December 31, 2012		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	23,367	1,823	7.8	(1)23,641	(1)1,163	4.9
Construction and real estate - construction	14,780	1,196	8.1	15,854	1,588	10.0
Construction and real estate - real estate activity	17,262	1,766	10.2	(1)17,268	(1)1,749	10.1
Commerce	20,050	1,126	5.6	19,691	1,026	5.2
Financial services	23,321	571	2.4	(1)26,614	(1)1,116	4.2
Private individuals - housing loans	20,937	522	2.5	20,725	473	2.3
Private individuals - other	40,631	378	0.9	(1)37,961	(1)421	1.1
Other Sectors	27,533	1,265	4.6	29,318	1,421	4.8
Total Public	**187,881**	**8,647**	**4.6**	**191,072**	**8,957**	**4.7**

Footnote:
(1) Reclassified - improving classification in different sectors.

THE BALANCES OF THE ALLOWANCE FOR CREDIT LOSSES

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,186 million as of September 30, 2013. The balance of this allowance constitutes 1.84% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,085 million, constituting 1.74% of the credit to the public as of December 31, 2012.

The balance of the specific allowance for credit losses. The outstanding balance of the allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 462 million on September 30, 2013, compared to NIS 490 million on December 31, 2012.

The balance of the group allowance for credit losses. The balance of the group allowance for credit losses in respect of customers examined on a specific basis, and which are not impaired, amounted at September 30, 2013 to NIS 967 million, compared with NIS 817 million on December 31, 2012, an increase of NIS 150 million in the current allowance, a rate of 18.4%. These changes were principally affected from changes in the allowance coefficients.

The outstanding balance of the group allowance for credit losses in respect of customers examined on a group basis excluding housing loans for which the allowance for credit loss was calculated according to the extent of arrears, amounted on September 30, 2013 to NIS 503 million, compared to NIS 552 million as of December 31, 2012, comprising a decrease in the current allowance in the amount of NIS 49 million, a rate of 8.9%.

Following are several financial ratios used to evaluate the quality of the credit portfolio:

	September 30, 2013	September 30, 2012	December 31,2012
Ratio of balance of impaired credit to the public to balance of credit to the public	3.8%	4.6%	4.5%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.5%	0.4%	0.6%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.8%	1.7%	1.7%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	48.4%	36.2%	38.3%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public[(1)]	4.6%	4.8%	4.7%
Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms).	0.51%	0.53%	0.61%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms).	0.4%	0.5%	0.5%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public (in annualized terms).	20.7%	29.6%	29.3%
Footnote:			
Disregarding certain bonds of bank holding companies (TRUPS), which are held by a subsidiary	4.5%	4.6%	4.5%

THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO

Following are the proportionate share of credit loss expenses of certain economic sectors of the total periodic credit loss expenses:

	Nine months ended September 30			
	2013		2012	
sectors	Credit loss expensses	Rate from total periodic expensses	Credit loss expensses	Rate from total periodic expensses
	In NIS millions	%	In NIS millions	%
Industry	96	21.0	146	30.8
Construction and real estate - construction	22	4.7	51	10.8
Construction and real estate - real estate activity	21	4.6	(44)	(9.3)
Commerce	196	42.9	83	17.5
Financial services	8	1.8	161	34.0
Other business services	21	4.6	42	8.9
Private Individuals - Housing Loans	40	8.8	(12)	(2.5)

The above data shows that the weight of the commerce sector in the total expenses for credit losses has increased compared to the first nine months of 2012. In addition, credit loss expenses with respect to housing loans increased, mainly due to the implementation of the directives of the Supervisor of Banks. In the other main sectors, with the exception of construction and real estate - real estate activity, credit loss expenses decreased.

SECURITIES

General. Securities in the Nosrto portfolio totaled NIS 47,124 million as of September 30, 2013, compared with NIS 46,001 million at the end of 2012, an increase of 2.4%. It is clarified that the "Nostro" portfolio of the Discount Group as of September 30, 2013, did not include any security the investment in which comprised 5% or over of the value of the total portfolio, except for one security, of the "government variable 520" type, the investment in which amounted to 6.8% of the total portfolio.

As of September 30, 2013, some 62% of the portfolio is invested in Government bonds, and 13% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the Bank's investments in bonds, according to economic sectors, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", items 1-3). For details regarding the segmentation of the investment in government bonds according to principal governments, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "C", Item 3).

Nostro portfolios management policy. The "Nostro" investment portfolios of the Bank and of its subsidiaries are used primarily as a central tool in the management of linkage base and interest rate risks, as well as in the management of excess liquid funds. The portfolios are managed with a general overview, aiming at maximizing interest income, under risk limitations determined by the Bank's Board of Directors and the Boards of Directors of the subsidiaries. The asset and liability management committee is the factor which actually determines the composition of the portfolio in each of the companies.

Within the framework of the strategic plan, an allocation of risk assets has been approved for a controlled variety of investments within the "Nostro" investment portfolio. A new unit was established at the Bank in 2012, whose main goal is expanding the variety of tools used for obtaining a return on capital, by means of structuring an investment portfolio within which credit and interest risks are managed. The unit has been allocated an investment facility and a budget of risk assets, as well as a defined income target. An amount of NIS 3.17 billion had been invested in the period until September 30, 2013.

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

Following is the composition of the securities portfolio by linkage segments:

	September 30, 2013	December 31, 2012	Rate of change in %
	In NIS millions		
Non-linked shekels	23,531	22,122	6.4
CPI-linked shekels	5,228	5,211	0.3
Foreign currency and foreign currency-linked shekels	17,497	17,962	(2.6)
Shares - non-monetary items	868	706	22.9
Total	**47,124**	**46,001**	**2.4**

Securities in foreign currency and in Israeli currency linked to foreign currency decrease by 2.6%, compared with December 31, 2012. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency increased by US$135 million, an increase of 2.8% as compared with December 31, 2012. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms increased by 4.5% as compared with December 31, 2012.

COMPOSITION OF THE SECURITIES PORTFOLIO ACCORDING TO PORTFOLIO CLASSIFICATION

In accordance with directives of the Supervisor of Banks, securities have been classified into three categories: held-to-maturity bonds portfolio, available-for-sale securities portfolio, and trading securities portfolio.

Following is the composition of investments in securities according to the above categories:

	September 30 ,2013			December 31 ,2012		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	7,423	7,672	7,423	6,988	7,436	6,988
Available for sale	35,794	35,973	35,973	34,800	35,356	35,356
Trading	2,856	2,860	2,860	2,963	2,951	2,951
Shares						
Available for sale	855	866	866	703	704	704
Trading	4	2	2	5	2	2
Total Securities	**46,932**	**47,373**	**47,124**	**45,459**	**46,449**	**46,001**

The net difference (after tax effect) between the fair value of the available-for-sale portfolio and its net-adjusted cost in the amount of NIS 162 million as of September 30, 2013, presented in other comprehensive income, in the item “adjustments, net, for presentation of available-for-sale securities at fair value" (December 31, 2012: NIS 404 million). In addition, included in other comprehensive income is the difference, as stated, relating to the Bank's share in equity of the First International Bank ("FIBI") in an amount of NIS 7 million (December 31, 2012: an amount of NIS 11 million).

Corporate bonds. Discount Group's available for sale securities portfolio as of September 30, 2013, includes investments in corporate bonds in the amount of NIS 4,561 million (including an amount of NIS 1,797 million held by IDB New York, an amount of NIS 920 million, held by Mercantile and NIS 1,844 million directly held by the Bank). For additional details, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", item 1). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 2 to the condensed financial statements.

INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

Investments in mortgage and asset backed securities – general. Discount Group’s securities portfolio as of September 30, 2013 includes investment in mortgage backed securities, in the amount of US$2,901 million, which are held by IDB New York, compared to an amount of US$3,034 million as at December 31, 2012. The majority of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac). The investment in the said bonds does not include exposure to the subprime market.

As of September 30, 2013, the portfolio of mortgage backed securities (MBS) and asset backed securities included unrealized net losses of US$31 million.

For details regarding the agencies operating under the auspices of the U.S. Administration, see the 2012 Annual Report (p. 32).

Direct investments in Federal Agencies’ bonds. The securities portfolio of the Discount Group as at September 30, 2013, includes a direct investment in FHLB, Fannie Mae and Freddie Mac bonds (hereinafter: "the Federal Agencies"), that are held by IDB New York, in an amount of US$25 million, compared to US$76 million on December 31, 2012.

CMBS. For details regarding exposure to commercial mortgage backed securities (CMBS) in immaterial amounts, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", item 4).

CLO. IDB New York holds secured bonds of the CLO type, in the total amount of NIS 1,060 million as of September 30, 2013 (December 31, 2012: NIS 696 million). The said securities are rated AA-AAA by at least one rating agency. For details, see Note 2 to the condensed financial statements.

DETAILS REGARDING IMPAIRMENT IN VALUE OF AVAILABLE FOR SALE SECURITIES

General. The point in time for determining the length of the period in which the investment was in a continuous unrealized loss position, is the date of the financial statements for the reporting period during which a continuous impairment first occurred.

The rate of the decline in the fair value below cost is computed as of the reporting date. This is so even if during the period in which the investment was in a continuous unrealized loss position, the rate of decline in fair value below cost was significantly different from the rate applying on the reporting date.

For details regarding the review of impairment of securities, see "Critical accounting policies and critical accounting estimates" in the 2012 Annual Report (p. 231) and Note 1 to the financial statements as of December 31, 2012 (pp. 355-356).

Based on a review of the impairment of the said securities as of September 30, 2013, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature, except for a number of securities, in respect of which a provision for impairment of NIS 11 million was recorded.

As at September 30, 2013, unrealized accumulated losses in respect of available-for sale shares amounted to an amount lower than NIS 1 million. As at September 30, 2012 and December 31, 2012, there were no unrealized accumulated losses in respect of available-for sale shares. As of September 30, 2013, September 30, 2012 and December 31, 2012, unrealized accumulated losses on available-for-sale mortgage backed securities amounted to total amounts of NIS 155 million, NIS 59 million and NIS 64 million, respectively (see Annex to the Report of the Board of Directors, comprising an integral part thereof, Part "A", items 5 and 6, respectively).

Unrealized losses - bonds available for sale. **Following are details regarding the distribution of unrealized accumulated losses on available for sale bonds (not including available-for-sale mortgage backed securities), according to the ratio of unrealized loss to the cost of the investment and the period of time in which this loss accrued:**

	Period of decline in fair value below amortized cost				
Ratio of unrealized loss to amortized cost	Up to 6 months	From 6 to 9 months	From 9 to 12 months	Over 12 months	Total
	In NIS millions				
	September 30, 2013				
Up to 20%	18	11	2	120	151
From 20% to 40%	-	-	-	29	29
Total	**18**	**11**	**2**	**149**	**180**
Of which: Government bonds	15	2	-	-	17
	September 30, 2012				
Up to 20%	2	1	3	107	113
From 20% to 40%	-	-	-	155	155
Total	**2**	**1**	**3**	**262**	**268**
Of which: Government bonds	2	1	-	14	17
	December 31, 2012				
Up to 20%	5	-	-	107	112
From 20% to 40%	-	-	-	79	79
Total	**5**	**-**	**-**	**186**	**191**
Of which: Government bonds	-	-	-	8	8

For details regarding certain available-for-sale bonds held by IDB New York, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", item 7).

DEPOSITS FROM THE PUBLIC

Deposits from the public as at September 30, 2013, totalled NIS 152,111 million, compared with 151,935 at the end of 2012, an increase of 0.1%.

Following is data on the composition of deposits from the public by linkage segments:

	September 30, 2013		December 31, 2012		
	In NIS millions	% of total deposits from the public	In NIS millions	% of total deposits from the public	Rate of change in %
Non-linked shekels	85,469	56.2	83,620	55.1	2.2
CPI-linked shekels	10,110	6.6	10,363	6.8	(2.4)
Foreign currency and foreign currency-linked shekels	56,532	37.2	57,952	38.1	(2.5)
Total	**152,111**	**100.0**	**151,935**	**100.0**	**0.1**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased at the rate of 2.5%, compared with December 31, 2012. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$459 million, an increase of 3.0% compared with December 31, 2012. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, increased at a rate of 2.2%, compared with December 2012.

The following is a review of developments in the balance of deposits from the public, by segments of operations:

	September 30, 2013		December 31, 2012(1)		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in-%
Retail - household segment	65,736	43.2	67,089	44.2	(2.0)
Retail - small bussiness segment	15,820	10.4	15,807	10.4	0.1
Corporate banking segment	24,609	16.2	21,531	14.2	14.3
Middle market banking segment	9,410	6.2	7,234	4.8	30.1
Private banking segment	36,536	24.0	40,274	26.4	(9.3)
Total	**152,111**	**100.0**	**151,935**	**100.0**	**0.1**

Footnote:

(1) Reclassified following a reclassification made by Mercantile Discount Bank designed to reflect a change in the classification of large and institutional deposits from the private banking segment to the Middle market banking segment and a change in the average balances of liabilities in respect of credit cards.

The ratio of total credit to the public, net, to deposits from the public was approx. 76.6% as at September 30, 2013, compared with 77.4% at the end of 2012.

CAPITAL RESOURCES

PREPARATION FOR THE IMPLEMENTATION OF BASEL III IN ISRAEL

Policy regarding capital for the interim period. The resolution of the Board of Directors regarding the "Strategic plan for the Discount Group for the years 2011-2013", has determined, among other things, a target for the core capital at the rate of 8.5% by the end of 2013.

Guideline regarding the core capital ratio. On March 28, 2012, the Supervisor of Banks issued a circular, according to which, banking corporations and credit card companies will be required as from January 1, 2015, to maintain a minimum core capital ratio of 9%.

New instructions. On June 3, 2013, the Supervisor of Banks issued an amendment of Proper Conduct of Banking Business Directives Nos. 201-205, 208 and 211, which includes amendments to the existing measurement rules in the matter of capital adequacy ("Basel II" guidelines), and new guidelines intended to integrate the principles included in the Basel Committee document published in December 2010 ("Basel III guidelines"). The instructions apply as from January 1, 2014, and include a requirement for maintaining a minimal core capital ratio of 9%, and a total capital ratio of 12.5% (from January 1, 2015), as well as detailed reference with respect to transitional instructions.

Future issues of capital instruments. As detailed in the description of the amendment of Proper Conduct of Banking Business in the matter of "Basel III" (see "Regulatory Framework for Risk Management" under "Exposure to Risks and Risk Management" hereunder), the capital instruments that would be issued as from January 1, 2014, will include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument.

The Bank estimates that it is not possible at this point to issue such capital instruments to the public, in view of the required agreement between the supervisory bodies regarding the characteristics of the securities that may be offered to the public, and which, to the best of the Bank's knowledge, has not yet been formed at this stage.

The effect of adoption of the Directive on the core capital. As aforesaid, on June 3, 2013, the Supervisor of Banks published a Proper Conduct of Banking Business Directive No. 202 in the matter of Capital Measurement and Adequacy (hereinafter: "the Directive"). The Directive, among other things, states more stringent requirements with respect to the components qualified for inclusion in capital, minimum capital targets, regulatory adjustments, deductions from capital and transitional instructions for implementation.

Immediate effect. The Bank estimates that had the guidelines of the Directive been implemented as of September 30, 2013, on the basis of the data for that date and the transitional instructions that would apply at the date of the initial implementation of the guidelines, the ratio of the core capital would have been reduced by 0.4% from 9.3% to 8.9%.

Short-term effect. The transitional instructions stated in the Directive, determine a gradual adoption of the more stringent requirements included therein. The Bank estimates that had the guidelines of the Directive been implemented as of September 30, 2013, on the basis of the data for that date and the transitional instructions as would apply one year after the date of the initial implementation of the guidelines, the ratio of the core capital, without the consideration of income accumulated during the period, would have been reduced by 0.6% from 9.3% to 8.7%.

Long-term effect. The Bank estimates that had the guidelines included in the Directive been implemented in full as of September 30, 2013, on the basis of the data for this date, and without taking into account the provisional instructions (excluding the discount regarding the sale of all the shares of FIBI held by the Bank) (a situation equal to the situation that will prevail in 2022, approx. nine years after the date of initial implementation of the directive, though without taking into consideration earnings that will accumulate during the period), the core capital ratio would have declined by 0.7%, from 9.3% to 8.6%.

It should be emphasized that the data presented above forms an estimate only. In view of the Directive's complexity, it is possible that at a later date, when experience in the Directive's implementation is gained, changes will take place in interpretation of the directive or in the policy adopted for its implementation in practice.

Moreover, the said estimates assume a situation of static existence of the data as of September 30, 2013, throughout the period of implementation, while in practice changes will occur during the period of implementation in the capital adequacy of the Bank, both as a result of the accumulation of current earnings and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result will inevitably be different than from the estimates stated above.

Preparations made by the Bank. The Bank operated and continues to operate for the preparation of a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the policy of the Supervisor of Banks and according to the time schedules published by him. In this respect, the Bank continues to study various possibilities of enlarging the capital base, which do not include an additional issue of shares by the Bank. Among other things, the Bank continues to study various alternatives for the sale of holdings or a part thereof. As part of the examination of the various alternatives, the Bank has approached investment banks in New York for indications from investors as to the possibility of the sale of the Bank's holdings in Bankcorp, in whole or in part. As detailed in the immediate report dated September 11, 2013 (Ref. No. 2013-01-142320), the information included therein is presented herein by way of reference, following non-binding indications that had been received from various sources, which are subject to the performance of a due diligence process, for the acquisition of the Bank's holdings in Bancorp, in whole or in part, as well as for the acquisition of Discount Bank Latin America, the Bank's Board of Directors decided on September 10, 2013, to allow a number of entities to perform a due diligence process, subject to terms determined by the Board. The Bank is not obliged to accept whatever offer, if at all. As of a date proximate to the date of approval of the financial statements, the said entities have not yet completed the due diligence review and/or the submission of an offer to the Bank. It is emphasized that this move does not serve as any indication for the materialization of any alternative whatever, and at this stage, it is not possible to determine which of the alternatives will be chosen, if at all, and the possibility exists that the Bank would not be required at all to choose any of the alternatives, as stated. (For additional details, see the 2012 Annual Report, p. 36).

COMPONENTS OF CAPITAL

Total capital as at September 30, 2013, totalled NIS 12,531 million, compared with NIS 12,134 million at the end of 2012, an increase of 3.3%.

The core capital ratio as of September 30, 2013, reached a ratio of 9.3%. It should be noted that in view of the agreement signed between FIBI and the Bank and in view of the approvals granted in respect thereof (see Note 6 E (1) to the financial statements as of December 31, 2012, pp. 404-406), in which a layout has been determined for the sale of the Bank's holdings in FIBI, the Supervisor of Banks has permitted the Bank to exclude from the core capital the deduction in respect of the Bank's investment in FIBI (the said relief will be withdrawn upon the implementation of the Basel III rules, on January 1, 2014, and the investment in FIBI will be treated as an investment in a financial corporation).

Equity attributed to the Bank's shareholders as at September 30, 2013, totalled NIS 12,228 million, compared with NIS 11,838 million at the end of 2012, an increase of 3.3%. The change in equity attributed to the Bank's shareholders in the first nine months of 2013 was affected, among other things, by the net earnings during the period, by a decrease of NIS 246 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect and from a decrease of NIS 169 million in financial statements transactions adjustments.

The ratio of total capital, to total assets as at September 30, 2013, reached a rate of 6.3%, compared with 6.0% at the end of 2012.

Ratio of tier 1 capital to risk assets as of September 30, 2013, reached a rate of 10.0%, compared with 9.3% at the end of 2012.

Ratio of original tier 1 capital to risk assets, ("Original tier I capital to risk assets ratio" in Basel I terms) reached a rate of 9.3% as of September 30, 2013, compared to a ratio of 8.6% at the end of 2012.

The ratio of total capital to risk assets, as at September 30, 2013, reached a rate of 14.4%, compared with 14.3% the end of 2012.

Possible future effect of the agreement with FIBI Holdings. In accordance with the agreement between the Bank and FIBI Holdings (see Note 6 E to the financial statements as of December 31, 2012, pp. 404-406), the right of the Bank requiring FIBI

Holdings to continue to cause the appointment of one quarter of the Directors of FIBI from among candidates recommended by Discount Bank, will expire on March 13, 2014. Upon expiry of the said right, the Bank will lose the material influence it has over FIBI (within the meaning of this term according to generally accepted accounting principles), and as from that date onwards, in accordance with reporting directives of the Supervisor of Banks, the shares in that bank will be presented as available-for-sale, according to their fair value. The difference between the fair value of the shares and their stated value on date of change in presentation as above, to the extent that such a difference will exist on that day, shall be deducted from equity. Had the said change taken effect on September 30, 2013, the difference would have reduced the core capital ratio of 0.11%.

CAPITAL ADEQUACY DATA

	September 30		December 31
	2013	2012	2012
	in NIS millions		
1. Capital for Calculating ratio of capital			
Tier 1 capital less deductions	13,216	(3)12,633	12,562
Tier 2 capital less deductions	5,856	(3)7,055	6,862
Total capital for calculating capital ratio	**19,072**	**19,688**	**19,424**
2. Weighted risk assets balance			
Credit risk	117,711	122,982	120,686
Market risk	2,210	2,255	2,238
Operational risk(2)	12,335	13,475	12,788
Total weighted risk assets balance	**132,256**	**138,712**	**135,712**
3. Ratio of capital to risk assets(1)			
Ratio of original tier 1 capital to risk assets	9.3	8.4	8.6
Ratio of tier 1 capital to risk assets	10.0	9.1	9.3
Ratio of total capital to risk assets	14.4	14.2	14.3
Total minimum capital ratio required by the Supervisor of Banks	**9.0**	**9.0**	**9.0**

Footnotes:

(1) For details regarding the capital ratio of significant banking subsidiaries and additional details, see Note 5 to the condensed financial statements.

(2) Calculation of the capital requirement in respect of the operational risk as of September 30, 2013 and December 31, 2012, was performed accordind to the stadardised approach (TSA). The calculation as of September 30, 2012, was performed according to the basic indicator approach (BIA) for calculating the capital requirement regarding operational risk, and this in accordance with Proper Conduct of Banking Business Directive No. 206 in the matter of "Measurement and capital adequacy – operational risk".

(3) Amended following adjustments made by FIBI – As detailed in the 2012 Annual Report, p. 334, Footnotes (5) and (7).

CAPITAL STRUCTURE

	September 30		December 31
	2013	2012	2012
	in NIS millions		
A. Components of capital			
Tier 1 capital			
Paid up regular share capital	4,099	4,094	4,099
Retained earnings	8,005	(2)7,034	7,203
Other capital reserves	(38)	281	131
Non-controlling interests	303	330	296
Adjustments regarding put options granted to the non-controlling interests holders in a consolidated company	85	82	81
Total core capital	**12,454**	**11,821**	**11,810**
Innovative hybrid instruments	1,783	1,759	1,747
Amounts deducted from tier 1 capital:			
Goodwill	(142)	(142)	(142)
Other intangible assets	-	(2)	-
Net losses on fair value adjustments of available for sale securities	(7)	(11)	(10)
Tier 1 capital less deductions from this tier's capital only	14,088	13,425	13,405
50% deductions from tier 1 capital (see B below)	(872)	(792)	(843)
Total tier 1 capital	**13,216**	**12,633**	**12,562**
Tier 2 capital			
45% of net gains before tax effect relating to adjustments to fair value of available for sale securities	115	(2)148	297
General allowance for doubtful debts	254	254	254
Preferred shares	2	3	2
Innovative hybrid capital instruments	1,410	1,392	1,383
Subordinated capital notes	4,947	6,050	5,769
50% deductions from tier 2 capital (see B below)	(872)	(792)	(843)
Total tier 2 capital	**5,856**	**7,055**	**6,862**
Total qualified capital	**19,072**	**19,688**	**19,424**
B.50% deductions from tier 1 capital and from tier 2 capital			
Investments in financial companies with significant influence(1)	1,744	1,584	1,687
Total deductions	**1,744**	**1,584**	**1,687**

Footnotes:

(1) Of which, NIS 1,678 millions in respect of FIBI (September 30,2012: NIS 1,566 millions, December 31,2012: NIS 1,624 millions).

(2) Amended following adjustments made by FIBI – As detailed in the 2012 Annual Report, p. 334, Footnotes (5) and (7).

RISK ASSETS

	September 30				December 31	
	2013		2012		2012	
	Risk assets	Capital requirements[1]	Risk assets	Capital requirements[1]	Risk assets	Capital requirements[1]
	in NIS millions					
Risk assets and capital requirements in respect of credit risk deriving from exposures of:						
Sovereigns	760	68	666	60	697	63
Public sector entities	1,476	133	1,225	110	1,078	97
Banking corporations	3,934	354	3,921	353	3,697	333
Corporations	74,528	6,708	81,648	7,349	78,656	7,079
Secured by commercial real estate	2,029	183	2,222	200	2,370	213
Retail exposures for private individuals	13,938	1,254	12,371	1,113	13,550	1,220
Small business loans	7,186	647	6,626	596	7,311	658
Housing mortgages	7,644	688	8,481	763	7,530	678
Securitization	228	21	98	9	155	14
Other assets	5,988	539	5,724	515	5,642	508
Total risk assets and capital requirements in respect of credit risk	**117,711**	**10,595**	**122,982**	**11,068**	**120,686**	**10,863**
Risk assets and capital requirements in respect of market risk according to the standard approach	**2,210**	**199**	**2,255**	**203**	**2,238**	**201**
Risk assets and capital requirements in respect of operational risk according to the standard approach[2]	**12,335**	**1,110**	**13,475**	**1,213**	**12,788**	**1,151**
Total risk assets and capital requirements	**132,256**	**11,904**	**138,712**	**12,484**	**135,712**	**12,214**

Footnotes:

(1) The minimum capital requirement in respect of the first pillar instructions is 8% with the addition of 1% in respect of the second pillar instructions.

(2) As to comparability between the data, see Note 5 to the condensed financial statements.

LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

GENERAL

During the first nine months of 2013, the M1 money supply (cash held by the public and NIS current account bank deposits) recorded an increase of 14%, about one half of the increase was recorded in the third quarter of the year. Furthermore, the M2 money supply (M1 together with non-linked deposits of up to one year) recorded an increase of 4%, most of which also in the third quarter of the year. It should be noted that in the corresponding period last year the M1 money supply recorded an increase of 9% while the M2 money supply recorded in increase of 7%.

The changes in the money supply reflected mostly an increase in current account deposits and in current credit deposits, while on the other hand a decline in deposits of up to one year (all the decline was recorded in the first quarter of the year). This, concurrently with the lowering of the interest rates and the price increases on the capital markets. The said developments led, apparently, to a movement from deposits up to one year (on the background of the low interest rate) to liquidity (for the purpose of utilizing opportunities on the capital market).

The monetary base increased in the reviewed period by NIS 2.9 billion (an increase of NIS 2.7 billion in the corresponding period last year). All the increase was recorded in the first quarter of the year. The increase in the monetary base during the reviewed period occurred, as stated, on the background of the decrease in interest rates and reflected the supply of liquidity by the Bank of Israel, which was partly offset by Government absorption. It should be noted that more than one half of the liquidity supplied by the Bank of Israel was made available through the conversion of foreign currency (in the months of April to September), on the background of the strengthening of the Shekel, a measure which was last adopted in July 2011.

Following are the sources for the change in the monetary base:

	First nine months of		change
	2013	2012	
	In NIS billion		in %
Operations on the Capital Market	(6.7)	2.0	-
The Shekel deposits tender	17.0	10.0	70.0
Conversion of foreign currency	13.9	-	-
Government activity	(23.1)	(11.6)	-

THE BANK

During the first nine months of 2013, the Bank maintained a volume of liquid assets larger than the total of its liquid liabilities.

DEPOSITS FROM THE PUBLIC

	September 30, 2013	September 30, 2012	December 31, 2012	Change compared September 30, 2012		Change compared December 31, 2012	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	71,621	71,481	70,199	140	0.2	1,422	2.0
CPI-linked shekels	11,639	12,457	12,074	(818)	(6.6)	(435)	(3.6)
Foreign currency and foreign currency linked shekels	28,984	31,444	29,537	(2,460)	(7.8)	(553)	(1.9)
Total	**112,244**	**115,382**	**111,810**	**(3,138)**	**(2.7)**	**434**	**0.4**
Foreign currency and foreign currency linked shekels - In US$ millions	**8,194**	**8,038**	**7,912**	**156**	**1.9**	**282**	**3.6**

DEPOSITS FROM BANKS

	September 30, 2013	September 30, 2012	December 31, 2012	Change compared September 30, 2012		Change compared December 31, 2012	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	649	1,900	1,038	(1,251)	(65.8)	(389)	(37.4)
CPI-linked shekels	617	352	275	265	75.2	342	124.3
Foreign currency and foreign currency linked shekels	1,004	2,389	1,805	(1,385)	(58.0)	(801)	(44.4)
Total	**2,270**	**4,641**	**3,118**	**(2,371)**	**(51.1)**	**(848)**	**(27.2)**

Deduction of Capital Notes in 2013. From October to December 2013, an amount of NIS 261 million of capital notes issued in the past will be deducted from the Tier II capital of the Group, used in calculating the ratio of capital to risk assets. NIS 820 million were deducted in the first nine months of 2013. It should be noted that the said data had been computed on the basis of instructions in effect at the present time (Basel II).

For additional details, see "Management and measurement of the liquidity risk" under "Exposure to risks and risk management".

DESCRIPTION OF THE ACTIVITY OF THE GROUP ACCORDING TO SEGMENTS OF OPERATION

ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATIONS

GENERAL

For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal assumptions, estimates and principles used in the preparation of segment information, see Note 31 to the financial statements as of December 31, 2012 (pp. 505-506).
Reclassification of comparative data for segments of operations. The comparative data for the periods of nine and three months ended September 30, 2012 have been reclassified following a reclassification made by Mercantile Discount Bank designed to reflect a change regarding the expenditure model, the classification of large and institutional deposits from the private banking segment to the corporate banking segment and a change in the average balances of liabilities in respect of credit cards.

RETAIL SEGMENT - GENERAL

The Bank presents two retail segments: "Household segment" and "Small business segment". For details regarding "Retail Segment - General", see the 2012 Annual Report (pp. 43-46).

DISCOUNT, THE BANK FOR THE FAMILY

In February 2013, the Bank launched a program, first of its kind in Israel, which is designed for existing and new customers who are related to one another. A "family program" turns the existing family cell into a financial group, enjoying the variety of services and exclusive benefits.
The program is enjoyed by the Bank's customers who join as a group to the "family program" at Discount Bank. Joining the program is simple and easy and is made possible by registering at the branch, at the TeleBank center and through the Bank's Internet site.
The connection to the family group grants the family members participating in the program, benefits of a personal value in accordance with the status of the accounts and in accordance with the type of benefits elected by the participants, and everything, of course, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members. At the present stage, the principal products of the program are:

- **Exemption from commission on money transfers** in Israeli currency between accounts of the family members participating in the program.
- **"Family plus"** – offsetting interest on overdrawn accounts against the accounts of the other family members. An exclusive

benefit for new customers and for existing customers adding another family member as a new customer. "Family plus" allows the customer to enjoy the setting off of interest charged on their overdraft so long as one or more family members participating in this benefit has at that time a credit balance on their current account. The interest amount being offset relates to a maximum debit balance of NIS 5,000 in each account participating in the program. It is emphasized, that the family member having a credit balance on their account, who assists another family member with a debit balance on their account, does so without forfeiting the interest due to them on their credit balance.

- **Participation award of up to NIS 2,000** – a monetary award of between NIS 750 and up to NIS 2,000, deposited in cash into the accounts of new participants. Customers who deposit a monthly salary of NIS 10 thousand and over, or who have deposit accounts of NIS 120 thousand and over, who are not entitled to other improved terms, shall receive an award of NIS 2,000.
- "**2go key" card** – a rechargeable card, which family members may order for a customer who is not the account owner, including also children from the age of 14. The card may be recharged through the customer's account at the branch, by TeleBank or by the Internet. The 2go key card allows a daily cash withdrawal of up to NIS 400, and daily purchase transactions of up to NIS 400. The card provides security and control over expenditure.
- **Higher education savings** – a fifteen year savings account, with an additional full year of savings provided by the Bank. Family members may make saving deposits of NIS 150 to NIS 1,000 per month, and at the end of the period enjoy the accumulated principal amount and interest as well as an additional award by the Bank in the value of the annual principal amount linked to the CPI, a total amount of up to NIS 12,000 together with CPI linkage increments.
- **Family loan** – loans at preferential terms to existing members and new members of the family program;
- **"Third family member" benefit** – family members at Discount Bank are invited to enjoy together, through the "Discount key", a family benefit. A different family benefit is offered each week at a reduced price, such as cinema shows, exhibitions, art shows and more.

"DISCOUNT KEY"

In 2013, the Bank is continuing the unique marketing effort in the area of financial consumption – the credit card "Discount key".

In April 2013, the Bank launched the first private refueling card in Israel. This benefit enables private account holders, who own a credit card of the Bank, to order a private refueling card, free of charge, for use in SONOL gas stations.

For additional details regarding this move, see the 2012 Annual Report (p. 45).

RETAIL BANKING SEGMENT - HOUSEHOLD SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's loss in the first nine months of 2013 amounted to NIS 50 million, compared to a net income in the amount of NIS 155 million in the corresponding period last year. The decline in the segment's income was affected mainly by the low interest rate environment and by the implementation of the Zaken committee's recommendations.

The credit loss expenses in this segment in the first nine months of 2013 amounted to NIS 68 million, compared to NIS 37 million in the corresponding period last year, an increase of 83.8%. The increase in expenses in the first nine months of 2013 stemmed mainly from a non-recurring provision required in light of the directives of the Supervisor of Banks (see Note 1 E 6).

Principal data relating to the operations of the household segment:

	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Total
	in NIS millions						
	For the three months ended September 30, 2013						
Interest income, net							
- From external sources	(46)	65	-	302	321	(2)-	321
- Intersegmental	272	(7)	-	(291)	(26)	(2)-	(26)
Total Interest income, net	226	58	-	11	295	(2)-	295
Non-interest financing income	1	4	1	(1)	5	(2)-	5
Commissions and Other income	111	209	59	15	394	(2)-	394
Total Income	**338**	**271**	**60**	**25**	**694**	**(2)-**	**694**
Credit loss expenses	1	11	-	(1)	11	(2)-	11
Net Income (loss) Attributed to the Bank's shareholders	**(39)**	**39**	**(1)**	**(2)**	**(3)**	**(2)-**	**(3)**
Return on equity (percentage)	(6.8)	7.2	(0.2)	(0.4)	(0.5)	-	(0.4)
Average Assets	9,021	8,385	-	20,046	37,452	18	37,470
Of which - Average credit to the public	9,021	8,385	-	20,046	37,452	18	37,470
Average Liabilities	65,808	2,512	-	35	68,355	53	68,408
Of which - Average deposits from the public	65,808	-	-	35	65,843	53	65,896
	For the three months ended September 30, 2012(1)						
Interest income, net							
- From external sources	(91)	67	-	77	53	(2)-	53
- Intersegmental	360	(9)	-	(29)	322	(2)-	322
Total Interest income, net	(4)269	58	-	(4)48	375	(2)-	375
Non-interest financing income	-	1	(3)2	3	6	(2)-	6
Commissions and Other income	130	195	(3)54	11	390	(2)-	390
Total Income	**399**	**254**	**56**	**62**	**771**	**(2)-**	**771**
Credit loss expenses	(4)	8	-	2	6	(2)-	6
Net Income Attributed to the Bank's shareholders	**7**	**24**	**8**	**19**	**58**	**(2)-**	**58**
Return on equity (percentage)	1.3	4.6	1.5	3.6	11.4	-	11.3
Average Assets	9,323	8,354	-	19,983	37,660	16	37,676
Of which - Average credit to the public	9,323	8,354	-	19,983	37,660	16	37,676
Average Liabilities	65,478	1,295	-	765	67,538	182	67,720
Of which - Average deposits from the public	65,478	-	-	765	66,243	182	66,425

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Amounts lower than NIS 1 million .
(3) Reclassified, see Note 1 D 2 (1).
(4) Reclassified - classification of the computed reduction in the transfer price in respect of mortgage loan activity regarding "Discount outline" from the "Banking and finance" item to the "Mortgages" item.

Principal data relating to the operations of the household segment (continued):

	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Total
	in NIS millions						
	For the nine months ended September 30, 2013						
Interest income, net							
- From external sources	(88)	193	-	724	829	(2)-	829
- Intersegmental	782	(23)	-	(669)	90	(2)-	90
Total Interest income, net	694	170	-	55	919	(2)-	919
Non-interest financing income	2	5	4	-	11	(2)-	11
Commissions and Other income	332	606	164	25	1,127	(2)	1,127
Total Income	**1,028**	**781**	**168**	**80**	**2,057**	**(2)-**	**2,057**
Credit loss expenses	8	20	-	40	68	(2)-	68
Net Income (loss) Attributed to the Bank's shareholders	**(121)**	**93**	**10**	**(32)**	**(50)**	**(2)-**	**(50)**
Return on equity (percentage)	(22.0)	19.3	47.3	(5.5)	(3.0)	(2)-	(3.0)
Average Assets	8,852	8,193	-	19,956	37,001	18	37,019
Of which - Average credit to the public	8,852	8,193	-	19,956	37,001	18	37,019
Average Liabilities	66,303	2,382	-	23	68,708	53	68,761
Of which - Average deposits from the public	66,303	-	-	23	66,326	53	66,379
	For the nine months ended September 30, 2012(1)						
Interest income, net							
- From external sources	(264)	202	-	170	108	(2)-	108
- Intersegmental	1,100	(27)	-	(60)	1,013	(2)-	1,013
Total Interest income, net	(4)836	175	-	(4)110	1,121	(2)-	1,121
Non-interest financing income	-	3	(3)5	6	14	(2)-	14
Commissions and Other income	368	570	(3)166	28	1,132	(2)-	1,132
Total Income	**1,204**	**748**	**171**	**144**	**2,267**	**(2)-**	**2,267**
Credit loss expenses	18	16	-	3	37	(2)-	37
Net Income (loss) Attributed to the Bank's shareholders	**21**	**82**	**29**	**24**	**156**	**(1)**	**155**
Return on equity (percentage)	3.7	18.2	143.2	4.6	9.9	(75.7)	9.9
Average Assets	9,243	8,270	-	19,919	37,432	12	37,444
Of which - Average credit to the public	9,243	8,270	-	19,919	37,432	12	37,444
Average Liabilities	65,512	1,823	-	983	68,318	82	68,400
Of which - Average deposits from the public	65,512	-	-	983	66,495	82	66,577

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Amounts lower than NIS1 million.
(3) Reclassified, see Note 1 D 2 (1).
(4) Reclassified - classification of the computed reduction in the transfer price in respect of mortgage loan activity regarding "Discount outline" from the "Banking and finance" item to the "Mortgages" item.

DEVELOPMENTS IN THE SEGMENT

Changes in the format of rapid banking services. Since the beginning of 2013, rapid banking services at the branches are provided on a "self-service" basis, with no permanent assistance of the staff. Accordingly, a part of the staff who had been engaged in this service has been moved to other duties at the information and sales call center and in the teller layout at the branches.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

Several private Bills were tabled before the Knesset, which proposed the abolition of current account ledger fees and of management commission on securities investment accounts, as well as requiring banks to pay interest on current account credit balances.
For details regarding the recommendations of the team examining the strengthening of competition in the banking industry and measures taken by the Supervisor of Banks for their implementation and additional measures taken by the Supervisor of Banks for improving competition and increasing transparency in current account management, see Note 16 to the condensed financial statements.

For details regarding the draft instruction in the matter of "Customer benefits", see "Legislation and Supervision" below.
For further details regarding the "Retail banking segment - household segment", see the 2012 Annual Report (pp. 46-52).

RETAIL BANKING SEGMENT - SMALL BUSINESS SEGMENT

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

For details regarding the recommendations of the team examining the increase in competition in the banking industry, measures taken by the Supervisor of Banks to implement these recommendations and additional action taken by the Supervisor to improve competition and increase transparency in the management of current accounts, including the change in the "small business" definition as regards charging commissions, see Note 16 to the condensed financial statements.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first nine months of 2013 amounted to NIS 159 million, compared to NIS 206 million in the corresponding period last year, a decrease of 22.8%.
The credit loss expenses in this segment in the first nine months of 2013 amounted to NIS 55 million, compared to NIS 54 million in the corresponding period last year, an increase of 1.9%

Principal data relating to the operations of the small business segment:

	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total
	in NIS millions					
	For the three months ended September 30, 2013					
Interest income, net						
- From external sources	152	6	-	13	15	186
- Intersegmental	15	(2)	-	(2)	(10)	1
Total Interest income, net	167	4	-	11	5	187
Non-interest financing income	-	-	1	-	-	1
Commissions and Other income	100	11	10	7	-	128
Total Income	**267**	**15**	**11**	**18**	**5**	**316**
Credit loss expenses	32	1	-	(1)	(5)	27
Net Income (loss) Attributed to the Bank's shareholders	**42**	**(2)**	**2**	**10**	**4**	**56**
Return on equity (percentage)	18.7	(0.8)	0.8	4.2	1.7	25.5
Average Assets	10,536	362	-	968	959	12,825
Of which - Average credit to the public	10,536	362	-	968	959	12,825
Average Liabilities	15,589	756	-	724	2	17,071
Of which - Average deposits from the public	15,589	-	-	724	2	16,315
	For the three months ended September 30, 2012[1]					
Interest income, net						
- From external sources	157	9	-	9	10	185
- Intersegmental	18	(2)	-	2	(5)	13
Total Interest income, net	175	7	-	11	5	198
Non-interest financing income	-	-	[2] 1	-	2	3
Commissions and Other income	89	19	[2] 9	5	-	122
Total Income	**264**	**26**	**10**	**16**	**7**	**323**
Credit loss expenses	13	-	-	3	(3)	13
Net Income Attributed to the Bank's shareholders	**68**	**9**	**-**	**7**	**5**	**89**
Return on equity (percentage)	38.8	4.6	-	3.6	2.5	54.2
Average Assets	10,142	414	-	791	1,133	12,480
Of which - Average credit to the public	10,142	414	-	791	1,133	12,480
Average Liabilities	15,648	1,246	-	634	21	17,549
Of which - Average deposits from the public	15,648	-	-	634	21	16,303

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified, see Note 1 D 2 (1).

Principal data relating to the operations of the small business segment (continued):

	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total
	in NIS millions					
	For the nine months ended September 30, 2013					
Interest income, net						
- From external sources	457	20	-	38	39	554
- Intersegmental	40	(6)	-	(5)	(26)	3
Total Interest income, net	497	14	-	33	13	557
Non-interest financing income	-	-	2	-	-	2
Commissions and Other income	275	33	29	17	1	355
Total Income	**772**	**47**	**31**	**50**	**14**	**914**
Credit loss expenses	66	1	-	(4)	(8)	55
Net Income Attributed to the Bank's shareholders	**114**	**7**	**2**	**29**	**7**	**159**
Return on equity (percentage)	21.2	14.4	31.2	60.5	15.1	23.1
Average Assets	10,249	368	-	910	967	12,494
Of which - Average credit to the public	10,249	368	-	910	967	12,494
Average Liabilities	15,388	770	-	722	2	16,882
Of which - Average deposits from the public	15,388	-	-	722	2	16,112
	For the nine months ended September 30, 2012[1]					
Interest income, net						
- From external sources	463	24	-	33	34	554
- Intersegmental	46	(7)		(1)	(14)	24
Total Interest income, net	509	17	-	32	20	578
Non-interest financing income	-	-	[2]2	-	3	5
Commissions and Other income	266	55	[2]25	14	2	362
Total Income	**775**	**72**	**27**	**46**	**25**	**945**
Credit loss expenses	61	-	-	(2)	(5)	54
Net Income Attributed to the Bank's shareholders	**140**	**24**	**1**	**26**	**15**	**206**
Return on equity (percentage)	28.8	50.2	36.5	63.1	27.0	32.5
Average Assets	10,036	392	-	767	1,157	12,352
Of which - Average credit to the public	10,036	392	-	767	1,157	12,352
Average Liabilities	14,122	1,064	-	630	31	15,847
Of which - Average deposits from the public	14,122	-	-	630	31	14,783

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified, see Note 1 D 2 (1).

For further details regarding the "Retail Banking Segment - Small Business Segment", see the 2012 Annual Report (pp. 53-56).

CORPORATE BANKING SEGMENT

REACHING TARGETS AND BUSINESS STRATEGY - FIRST NINE MONTHS OF 2013

The Bank has acted in accordance with the work plan for the corporate banking segment, while focusing on increasing return on risk assets and a customer-focused view. Among other things, the Bank acted to adjust its exposure in accordance with sectorial risk level evaluations and adjust the credit margins to the risk level, reducing exposure to foreign operations, and reducing the concentration risk (to borrower groups and individual borrowers), with a view of improving the credit portfolio.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

As of Sptember 30, 2013, no deviations existed to the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as of June 30, 2013, there were no deviations from the limitations on "related persons".

Starting with the 2012 annual report, the Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. The Bank studies the question as to whether classification of such investment is required also for examining the compliance with the limitations determined in Proper Conduct of Banking Business Directives. This, in view of the essence of the said agencies and the special characteristics of the securities in which the Bank is invested, as stated. At this stage, the calculations regarding the Bank's compliance with the limitations did not include the Bank's investments in the said securities.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first nine months of 2013 amounted to NIS 203 million, compared with NIS 260 million in the corresponding period last year, a decrease of 21.9%.

The credit loss expenses in this segment in the first nine months of 2013 amounted to NIS 220 million, compared to NIS 272 million in the corresponding period last year, a decrease of 19.1%.

Principal data relating to the operations of the corporate banking segment:

	Domestic operations					International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions								
	For the three months ended September 30, 2013								
Interest income, net									
- From external sources	153	4	-	145	302	48	2	50	352
- Intersegmental	(18)	-	-	(75)	(93)	(14)	3	(11)	(104)
Total Interest income, net	135	4	-	70	209	34	5	39	248
Non-interest financing income	6	-	-	1	7	-	-	-	7
Commissions and Other income	45	9	15	21	90	13	3	16	106
Total Income	**186**	**13**	**15**	**92**	**306**	**47**	**8**	**55**	**361**
Credit loss expenses	38	(1)	(1)	26	62	4	1	5	67
Net Income (loss) Attributed to the Bank's shareholders	**21**	**(4)-**	**3**	**31**	**55**	**11**	**(4)-**	**11**	**66**
Return on equity (percentage)	2.1	-	0.3	3.1	5.6	1.1	-	1.1	6.8
Average Assets	21,002	386	25	11,497	32,910	5,950	2,059	8,009	40,919
Of which - Average credit to the public	21,002	386	-	11,497	32,885	5,950	2,059	8,009	40,894
Average Liabilities	17,671	789	2	1,650	20,112	1,706	464	2,170	22,282
Of which - Average deposits from the public	17,671	-	-	1,650	19,321	1,706	464	2,170	21,491
	For the three months ended September 30, 2012(1)								
Interest income, net									
- From external sources	150	6	-	179	335	51	10	61	396
- Intersegmental	6	-	-	(108)	(102)	(14)	(2)	(16)	(118)
Total Interest income, net	156	6	-	71	233	37	8	45	278
Non-interest financing income	11	-	(3)1	-	12	-	-	-	12
Commissions and Other income	62	16	(3)11	28	117	12	-	12	129
Total Income	**229**	**22**	**12**	**99**	**362**	**49**	**8**	**57**	**419**
Credit loss expenses	156	-	-	(17)	139	2	21	23	162
Net Income (loss) Attributed to the Bank's shareholders	**(29)**	**9**	**1**	**66**	**47**	**16**	**(7)**	**9**	**56**
Return on equity (percentage)	(2.7)	0.8	0.1	6.4	4.5	1.5	(0.7)	0.8	5.3
Average Assets	27,559	440	27	12,786	40,812	(2)6,359	2,176	8,535	49,347
Of which - Average credit to the public	27,559	440	-	12,786	40,785	6,359	2,176	8,535	49,320
Average Liabilities	21,802	1,306	1	1,991	25,100	1,979	266	2,245	27,345
Of which - Average deposits from the public	21,802	-	-	1,991	23,793	1,979	266	2,245	26,038

Notes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.
(3) Reclassified, see Note 1 D 2 (1).
(4) Amounts lower than NIS 1 million .

Principal data relating to the operations of the corporate banking segment (continued):

	Domestic operations					International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions								
	For the nine months ended September 30, 2013								
Interest income, net									
- From external sources	470	11	-	383	864	134	15	149	1,013
- Intersegmental	(61)	-	-	(188)	(249)	(36)	(1)	(37)	(286)
Total Interest income, net	409	11	-	195	615	98	14	112	727
Non-interest financing income	43	-	3	1	47	-	-	-	47
Commissions and Other income	131	27	41	73	272	35	6	41	313
Total Income	**583**	**38**	**44**	**269**	**934**	**133**	**20**	**153**	**1,087**
Credit loss expenses	168	(1)	-	30	197	12	11	23	220
Net Income (loss) Attributed to the Bank's shareholders	**41**	**6**	**7**	**123**	**177**	**34**	**(8)**	**26**	**203**
Return on equity (percentage)	2.6	16.9	-	12.2	6.7	9.7	(7.5)	5.8	6.6
Average Assets	22,181	391	24	11,843	34,439	5,864	1,981	7,845	42,284
Of which - Average credit to the public	22,181	391	-	11,843	34,415	5,864	1,981	7,845	42,260
Average Liabilities	18,032	805	2	1,942	20,781	1,760	360	2,120	22,901
Of which - Average deposits from the public	18,032	-	-	1,942	19,974	1,760	360	2,120	22,094
	For the nine months ended September 30, 2012[1]								
Interest income, net									
- From external sources	447	13	1	467	929	134	14	148	1,077
- Intersegmental	5	-	-	(250)	(245)	(30)	(3)	(33)	(278)
Total Interest income, net	452	13	1	217	683	104	11	115	798
Non-interest financing income	38	-	[3]1	1	40	-	-	-	40
Commissions and Other income	147	43	[3]36	77	303	34	2	36	339
Total Income	**637**	**56**	**38**	**295**	**1,026**	**138**	**13**	**151**	**1,177**
Credit loss expenses	242	-	-	(34)	208	21	43	64	272
Net Income (loss) Attributed to the Bank's shareholders	**44**	**22**	**6**	**180**	**252**	**39**	**(31)**	**8**	**260**
Return on equity (percentage)	2.9	81.4	96.5	17.5	9.4	10.9	(31.9)	2.1	8.4
Average Assets	26,561	416	29	12,854	39,860	[2]5,013	1,522	6,535	46,395
Of which - Average credit to the public	26,561	416	-	12,854	39,831	5,013	1,522	6,535	46,366
Average Liabilities	22,494	1,114	1	2,135	25,744	1,755	152	1,907	27,651
Of which - Average deposits from the public	22,494	-	-	2,135	24,629	1,755	152	1,907	26,536

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.
(3) Reclassified, see Note 1 D 2 (1).

DEVELOPMENTS IN THE BUSSINESS SECTOR IN THE FIRST NINE MONTHS OF 2013

The domestic economy expanded in the third quarter of the year at a low annual rate of 2.2%, this compared to a growth of 3.4% in the first half of the year (in particular, a growth of 4.6% was recorded in the second quarter). The business product grew in the third quarter at even a more moderate rate of 2.1% (compared to 3.6% in the first half). It should be noted that in the third quarter of 2012, the total product and the business product grew at the rates of 4.3% and 4.6% respectively.

Following are the factors which affected the development of the business product in the third quarter of 2013 (the rates of change are in annualized terms):

- Growth in consumption at the rate of 5.6%, an acceleration compared with both the corresponding period last year and the first half of the current year. The said growth covered both current consumption goods and durable goods (mostly motor vehicles).
- A regression of 16.4% in exports, and in particular a regression of 26% in the export of services and a regression of 19% in industrial exports (excluding diamonds). On the other hand, the export of diamonds continued to grow at a fast rate (64%).
- A growth of 19.1% in investments in fixed assets (excluding ships and aircrafts), following a regression in the first half of the year. The said growth reflected a steep increase (25%) in investments in economic sectors, and on the other hand a regression in residential construction (2.9%).
- The rate of growth of public consumption (excluding defense imports) slowed down in the third quarter of the year to 1.5% (compared to 3.4% in the first half). The said slowdown reflected a regression in both civil consumption (3.8%) and in purchases from the domestic defense industry.

Alongside the said developments, imports of goods and services (excluding defense imports) recorded a steep growth – 10%, following a standstill in the first half of the year and compared to a regression in the corresponding period last year.

DEVELOPMENTS IN THE DEBT OF THE BUSSINESS SECTOR

The debt of the business sector (excluding banks and insurance companies) contracted by 1.0% in the course of the first nine months of 2013, as compared with the end of December 2012. As a result, the balance of the debt as of the end of September 2013 amounted to NIS 786 billion.

The reduction in the debt during the reviewed period reflects a decline of 3% in the debt to banks, which was partly offset by an increase of 9% in the debt to households and to corporations (listed corporate bonds). It should be noted that the debt to institutional bodies remained unchanged (NIS 152 billion), though it reflected an increase of 21% in loans, which was offset by a decrease of 7% in bonds. According to the Bank of Israel assessments, in quantitative terms (eliminating the effects of inflation and exchange rate changes), the total debt of the business sector declined by 0.1% in the first nine month of the year, of which a decline of 2.6% in the debt to banks. In addition, minor changes in quantitative terms were recorded in the third quarter in the debt to banks, as well as in the total debt of the business sector.

Following the above mentioned developments, the weight of banks in the total debt of the business sector decreased from 50.7% at the end of 2012 to 49.7% at the end of September 2013.

The volume of corporate bond issues in the period January to September amounted to NIS 27.3 billion, of which bonds in an amount of NIS 9.1 billion were issued in the third quarter.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of August 30, 2013 was 1.44%, compared with 1.70% on December 31, 2012 and 1.38% on June 30, 2013.

DEVELOPMENTS IN THE SEGMENT'S MARKETS

Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined economic sector affected by foreign demand. Activity in this sector has declined significantly from the beginning of 2013, while during this period the industrial production index fell by an annualized rate of 6%. During the third quarter the index fell at an annualized rate of 8%. Weakness is noticeable in traditional industries such as rubber and plastics and in textiles;
- Diamonds – Steady activity of the sector in Israel and supply of increasing demand from the U.S., even on account of a decline in demand in East Asia markets;
- The services sectors – these sectors are varied sectors and partly characterized by changes in regulation and increased competition;
- Transportation sector – Increased competition is noticeable in the aviation field due to the beginning of implementation of the "open skies" agreement and the increase in passenger traffic to and from Israel served by foreign airline companies.
  A certain recovery in demand is noticeable in the marine transportation field. The Baltic Dry Index is in an upward trend since the beginning of the year. During the third quarter the index rose by 70% reaching a level similar to that of the previous year. However, this level is still lower than those of prior years;
- The commerce sector – An increase in turnover of the wholesale and retail commercial sectors was recorded since the beginning of the year at an annualized rate of 3%, which somewhat moderated growth during the third quarter. In addition, a certain halt was recorded in the consumer pessimism trend, reflected by slight improvements in the consumer confidence indices;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS

The growth forecast of the Bank of Israel for 2014 stands at 3.4% (2.7% net of the effect of the natural gas production). Namely, the continued slow expansion of the local economy.

The various anticipation surveys indicate stability in the evaluation of the economic situation made by the business factors, though at the same time, the downward trend in the imports of investment products and raw material continues, which might point at certain concerns. Moreover, the continuing global crisis and the decline in foreign demand are expected to adversely affect the industrial sector, private consumption being also adversely affected by the atmosphere of uncertainty in the global economy, with implications on the commerce sector.

For details regarding developments expected in the real estate and infrastructure sector, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

EXPECTED DEVELOPMENTS IN CREDIT TO THE CORPORATE BANKING SEGMENT

Banking credit. The stagnation in the segment is expected to continue, in light of the need to meet the goals of the capital requirements, reduction of concentration risks and reduction of the exposure to the large borrower groups.

Off-banking credit. A growth is anticipated in off-banking credit. This, mainly due to fast growth in non-marketable private loans.

The above said in the last two items is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy. The foregoing may not materialize in case of different changes in macro-economic conditions, which are not under the Bank's control.

For further details regarding the "Corporate Banking Segment", see the 2012 Annual Report (pp. 56-64).

MIDDLE MARKET BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first nine months of 2013 amounted to NIS 87 million, compared with NIS 125 million in the corresponding period last year, a decrease of 30.4%.

The credit loss expenses in the first nine months of 2013 amounted to NIS 127 million, compared with NIS 92 million in the corresponding period last year, an increase of 38.0%.

Principal data relating to the operations of the middle market banking segment:

	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
	For the three months ended September 30, 2013									
Interest income, net										
- From external sources	77	1	-	33	4	115	39	30	69	184
- Intersegmental	(19)	-	-	(12)	-	(31)	(12)	(7)	(19)	(50)
Total Interest income, net	58	1	-	21	4	84	27	23	50	134
Non-interest financing income	3	-	-	-	-	3	-	-	-	3
Commissions and Other income	21	2	2	7	-	32	7	7	14	46
Total Income	**82**	**3**	**2**	**28**	**4**	**119**	**34**	**30**	**64**	**183**
Credit loss expenses	49	-	-	5	-	54	(3)	7	4	58
Net Income (loss) Attributed to the Bank's shareholders	**(10)**	**(1)**	**-**	**8**	**3**	**-**	**12**	**6**	**18**	**18**
Return on equity (percentage)	(2.3)	(0.2)	-	1.9	0.7	-	2.8	1.4	4.3	4.1
Average Assets	6,858	101	-	3,367	342	10,668	3,827	3,863	7,690	18,358
Of which - Average credit to the public	6,858	101	-	3,367	342	10,668	3,827	3,863	7,690	18,358
Average Liabilities	6,215	211	-	824	1	7,251	1,277	808	2,085	9,336
Of which - Average deposits from the public	6,215	-	-	824	1	7,040	1,277	808	2,085	9,125
	For the three months ended September 30, 2012[1]									
Interest income, net										
- From external sources	94	2	-	31	6	133	46	28	74	207
- Intersegmental	(32)	-	-	(6)	(1)	(39)	(11)	(7)	(18)	(57)
Total Interest income, net	62	2	-	25	5	94	35	21	56	150
Non-interest financing income	2	-	-	-	-	2	-	-	-	2
Commissions and Other income	22	4	3	7	-	36	6	4	10	46
Total Income	**86**	**6**	**3**	**32**	**5**	**132**	**41**	**25**	**66**	**198**
Credit loss expenses	14	-	-	8	-	22	9	1	10	32
Net Income (loss) Attributed to the Bank's shareholders	**8**	**3**	**(1)**	**10**	**2**	**22**	**[3]-**	**15**	**15**	**37**
Return on equity (percentage)	1.6	0.6	(0.2)	2.0	0.4	4.5	-	3.1	3.1	7.5
Average Assets	7,005	115	-	3,358	279	10,757	[2]4,487	3,300	7,787	18,544
Of which - Average credit to the public	7,005	115	-	3,358	279	10,757	4,487	3,300	7,787	18,544
Average Liabilities	6,337	349	-	969	-	7,655	1,390	788	2,178	9,833
Of which - Average deposits from the public	6,337	-	-	969	-	7,306	1,390	788	2,178	9,484

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.
(3) Amounts lower than NIS 1 million.

Principal data relating to the operations of the middle market banking segment (continued):

	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
	For the nine months ended September 30, 2013									
Interest income, net										
- From external sources	240	3	-	96	8	347	110	88	198	545
- Intersegmental	(64)	-	-	(23)	(2)	(89)	(31)	(20)	(51)	(140)
Total Interest income, net	176	3	-	73	6	258	79	68	147	405
Non-interest financing income	12	-	-	-	-	12	-	-	-	12
Commissions and Other income	67	7	7	21	-	102	19	18	37	139
Total Income	**255**	**10**	**7**	**94**	**6**	**372**	**98**	**86**	**184**	**556**
Credit loss expenses	94	-	-	2	(1)	95	12	20	32	127
Net Income Attributed to the Bank's shareholders	**3**	**1**	**-**	**43**	**4**	**51**	**20**	**16**	**36**	**87**
Return on equity (percentage)	0.7	9.6	-	17.6	13.0	7.0	7.7	5.2	6.3	6.7
Average Assets	6,937	103	-	3,331	370	10,741	4,171	3,789	7,960	18,701
Of which - Average credit to the public	6,937	103	-	3,331	370	10,741	4,171	3,789	7,960	18,701
Average Liabilities	6,838	215	-	868	1	7,922	1,329	850	2,179	10,101
Of which - Average deposits from the public	6,838	-	-	868	1	7,707	1,329	850	2,179	9,886
	For the nine months ended September 30, 2012[1]									
Interest income, net										
- From external sources	275	4	-	91	7	377	169	84	253	630
- Intersegmental	(93)	-	-	(22)	(1)	(116)	(42)	(20)	(62)	(178)
Total Interest income, net	182	4	-	69	6	261	127	64	191	452
Non-interest financing income	13	-	-	-	-	13	-	-	-	13
Commissions and Other income	66	12	8	21	-	107	23	9	32	139
Total Income	**261**	**16**	**8**	**90**	**6**	**381**	**150**	**73**	**223**	**604**
Credit loss expenses	33	-	-	10	-	43	38	11	49	92
Net Income Attributed to the Bank's shareholders	**44**	**7**	**-**	**35**	**3**	**89**	**4**	**32**	**36**	**125**
Return on equity (percentage)	10.6	47.3	-	14.6	17.2	12.9	1.0	15.6	5.8	9.6
Average Assets	7,163	109	-	3,196	309	10,777	[2]5,689	3,138	8,827	19,604
Of which - Average credit to the public	7,163	109	-	3,196	309	10,777	5,689	3,138	8,827	19,604
Average Liabilities	6,261	297	-	823	-	7,381	1,374	640	2,014	9,395
Of which - Average deposits from the public	6,261	-	-	823	-	7,084	1,374	640	2,014	9,098

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.

DEVELOPMENTS IN THE SEGMENT

For details regarding service to small and medium businesses, see above "Small businesses segment".

For further details regarding the "Middle Market Banking Segment", see the 2012 Annual Report (pp. 65-68).

PRIVATE BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first nine months of 2013 amounted to NIS 32 million, compared with NIS 28 million in the corresponding period last year, an increase of 14.3%.

Principal data relating to the operations of the private banking segment:

	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
	For the three months ended September 30, 2013						
Interest income, net							
- From external sources	(36)	-	(36)	25	-	25	(11)
- Intersegmental	57	-	57	34	-	34	91
Total Interest income, net	21	-	21	59	-	59	80
Commissions and Other income	11	12	23	32	12	44	67
Total Income	**32**	**12**	**44**	**91**	**12**	**103**	**147**
Credit loss expenses	2	-	2	-	-	-	2
Net Income (loss) Attributed to the Bank's shareholders	**(2)**	**1**	**(1)**	**5**	**4**	**9**	**8**
Return on equity (percentage)	(1.8)	0.9	(0.9)	4.7	3.7	8.5	7.3
Average Assets	1,352	-	1,352	2,852	-	2,852	4,204
Of which - Average credit to the public	1,352	-	1,352	2,852	-	2,852	4,204
Average Liabilities	15,641	-	15,641	17,435	-	17,435	33,076
Of which - Average deposits from the public	15,641	-	15,641	17,435	-	17,435	33,076
	For the three months ended September 30, 2012[(1)]						
Interest income, net							
- From external sources	(56)	-	(56)	25	-	25	(31)
- Intersegmental	88	-	88	44	-	44	132
Total Interest income, net	32	-	32	69	-	69	101
Commissions and Other income	10	9	19	[(3)]28	[(3)]13	41	60
Total Income	**42**	**9**	**51**	**97**	**13**	**110**	**161**
Credit loss expenses	(1)	-	(1)	-	-	-	(1)
Net Income (loss) Attributed to the Bank's shareholders	**9**	**(2)**	**7**	**6**	**2**	**8**	**15**
Return on equity (percentage)	9.5	(2.0)	7.4	6.3	2.1	8.5	17.9
Average Assets	1,522	-	1,522	[(2)]2,470	-	2,470	3,992
Of which - Average credit to the public	1,522	-	1,522	2,470	-	2,470	3,992
Average Liabilities	16,328	-	16,328	19,929	-	19,929	36,257
Of which - Average deposits from the public	16,328	-	16,328	19,929	-	19,929	36,257

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.
(3) Reclassified – classification of certain commissions from "Banking and finance" to "Capital market".

Principal data relating to the operations of the private banking segment (continued):

	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
	For the nine months ended September 30, 2013						
Interest income, net							
- From external sources	(108)	-	(108)	67	-	67	(41)
- Intersegmental	174	-	174	107	-	107	281
Total Interest income, net	66	-	66	174	-	174	240
Non-interest financing income	1	-	1	13	-	13	14
Commissions and Other income	30	32	62	97	43	140	202
Total Income	**97**	**32**	**129**	**284**	**43**	**327**	**456**
Credit loss expenses	(4)	-	(4)	2	-	2	(2)
Net Income (loss) Attributed to the bank's shareholders	**(7)**	**(3)**	**(10)**	**37**	**5**	**42**	**32**
Return on equity (percentage)	(7.4)	(22.8)	(8.7)	18.2	-	20.3	10.1
Average Assets	1,296	-	1,296	2,782	-	2,782	4,078
Of which - Average credit to the public	1,296	-	1,296	2,782	-	2,782	4,078
Average Liabilities	15,509	-	15,509	17,807	-	17,807	33,316
Of which - Average deposits from the public	15,509	-	15,509	17,807	-	17,807	33,316
	For the nine months ended September 30, 2012[1]						
Interest income, net							
- From external sources	(165)	-	(165)	76	-	76	(89)
- Intersegmental	270	-	270	116	-	116	386
Total Interest income, net	105	-	105	192	-	192	297
Non-interest financing income	1	-	1	3	-	3	4
Commissions and Other income	26	28	54	76	39	115	169
Total Income	**132**	**28**	**160**	**271**	**39**	**310**	**470**
Credit loss expenses	(5)		(5)	1		1	(4)
Net Income (loss) Attributed to the bank's shareholders	**32**	**(4)**	**28**	**(4)**	**4**	**[3]-**	**28**
Return on equity (percentage)	28.9	(21.6)	23.9	(1.4)	-	0.6	9.6
Average Assets	1,408	-	1,408	[2]2,532	-	2,532	3,940
Of which - Average credit to the public	1,408	-	1,408	2,532	-	2,532	3,940
Average Liabilities	15,682	-	15,682	19,899	-	19,899	35,581
Of which - Average deposits from the public	15,682	-	15,682	19,899	-	19,899	35,581

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.
(3) Amounts lower than NIS 1 million.

DEVELOPMENTS IN THE SEGMENT

The domestic private banking operations of the Bank extended its disposition in Israel, in accordance with the work plan, opening two new service centers in Tel Aviv and Jerusalem, which were added to the existing service centers in Herzliya Pituach and in Haifa.

In addition, a designated marketing Internet website for the Israeli private banking customers was established, which reviews the variety of services and unique products offered to customers belonging to this segment.

For further details regarding the "Private Banking Segment", see the 2012 Annual Report (pp. 68-72).

FINANCIAL MANAGEMENT SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's income in the first nine months of 2013, not including the activity of the non-financial companies sub-segment, amounted to NIS 297 million, compared to a loss of NIS 188 million in the corresponding period last year.

Total income in the first nine months of 2013 amounted to NIS 674 million, compared with an amount of NIS 343 million in the corresponding period last year, and they include three main components:

1. Income from the Bank's "Nostro" operations in Israel in the net amount of NIS 500 million, net, including a gain of NIS 378 million from the sale of securities (mostly Government bonds) and fair value adjustments of marketable securities, compared to an income of NIS 191 million from nostro activity in the corresponding period last year, including a profit of NIS 225 million from the sale of securities and fair value adjustments of marketable securities.
2. Gain from assets and liabilities management (from positions management and from currency and financial derivatives trading and brokerage) of NIS 123 million, compared to a gain of NIS 2 million in the corresponding period last year.
3. Income from international operations in the amount of NIS 51 million, compared with income of NIS 150 million in the corresponding period last year.

Principal data relating to the operations of the financial management segment:

	Domestic Operations	International Operations	Total	Domestic Operations	International Operations	Total
	in NIS millions					
	For the three months ended September 30					
	2013			2012[(1)]		
Interest income, net	125	23	148	11	28	39
Non-interest financing income	51	13	64	31	27	58
Commissions and Other income	21	(14)	7	[(2)]18	-	18
Total Income	**197**	**22**	**219**	**60**	**55**	**115**
Credit loss expenses	4	2	6	11	10	21
Net Income (loss) Attributed to the Bank's shareholders	**117**	**8**	**125**	**[(2)](41)**	**(4)**	**(45)**
Return on equity (percentage)	19.2	1.2	20.9	(8.6)	(0.9)	(9.4)
Average Assets	62,930	18,958	81,888	[(3)]63,202	[(4)]19,853	83,055
Average Liabilities	21,545	12,061	33,606	[(3)] 25,653	9,255	34,908
	For the nine months ended September 30					
	2013			2012[(1)]		
Interest income, net	272	57	329	105	40	145
Non-interest financing income	310	31	341	42	119	161
Commissions and Other income	41	(37)	4	[(2)]46	(9)	37
Total Income	**623**	**51**	**674**	**193**	**150**	**343**
Credit loss expenses	2	(13)	(11)	9	14	23
Net Income (loss) Attributed to the Bank's shareholders	**282**	**15**	**297**	**[(2)](229)**	**41**	**(188)**
Return on equity (percentage)	18.7	6.0	17.0	(19.6)	30.0	(14.4)
Average Assets	62,640	20,678	83,318	[(3)]62,092	[(4)]20,111	82,203
Average Liabilities	21,723	12,505	34,228	[(3)] 24,493	9,243	33,736

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified, see Note 1 D 2.
(3) Reclassified - sorting of the average balance of provision for contingencies from the item "Other assets" (where it had been offset against an asset of a similar nature) to the item "Other liabilities".
(4) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.

DEVELOPMENTS IN THE SEGMENT

Sale of operations of Automatic Banking Services Ltd. ("ABS"). The Bank holds 20% in ABS. The general meeting of shareholders of ABS approved on July 18, 2013, the entry of the company into an agreement for the sale of its ATM operations, in consideration for NIS 63 million. Among other things, the agreement is subject to the approval of the Antitrust Commissioner. Upon consummation of the transaction, the Bank is expected to recognize a net profit of NIS 8 million.

For further details regarding the "Financial Management Segment", see the Annual Report for 2012 (pp. 72-75).

NON-FINANCIAL COMPANIES SUB-SEGMENT

GENERAL

This sub-segment includes the Group's operations in non-financial investments. The greater part of the sub-segment's operations relate to investments made by a subsidiary, Israel Discount Capital Markets and Investments Ltd. (hereinafter: "DCMI") and directly by the Bank itself.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SUB-SEGMENT

As of September 30, 2013, the amount of the Bank's investment in non-financial corporations was less than the restricted amount pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details see the 2012 Annual Report (p. 76).

SCALE OF OPERATIONS AND NET PROFIT OF THE SUB-SEGMENT

The sub-segment's net income in the first nine months of 2013 amounted to NIS 74 million, compared with NIS 47 million in the corresponding period last year, an increase of 57.4%.

Principal data relating to the operations in the non-financial company sub-segment:

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	2013	2012
	in NIS millions			
Interest income, net	2	1	2	2
Non-interest financing income	10	13	89	56
Commissions and Other income	1	1	2	2
Total Income	**13**	**15**	**93**	**60**
Net Income Attributed to the Bank's shareholders	**6**	**11**	**74**	**47**

INVESTMENT OF THE GROUP IN PRIVATE INVESTMENT FUNDS, VENTURE CAPITAL FUNDS AND CORPORATIONS

DCMI is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of September 30, 2013, the net investments of DCMI in these corporations and funds amounted to approx. US$236 million. As of September 30, 2013, the maximum future commitment of DCMI for investment in these corporations and funds amounted to approx. US$82 million.

In addition to the investment in funds through DCMI, the Bank has made a direct investment in an additional fund. The balance of the Bank's investment in the aforementioned fund, as of September 30, 2013, amounted to US$15 million. The said fund had discontinued operations and during the last year it acted to realize its remaining assets. In October 2013, the Fund realized its last significant investment.

Furthermore, Mercantile Discount Bank is committed to invest in six venture capital funds. As September 30, 2013, the investment of Mercantile Discount Bank in these funds amounted to US$2.7 million. As of September 30, 2013, the maximum additional commitment for the future investments in these funds amounted to US$1.0 million.

DEVELOPMENTS IN THE SUB-SEGMENT

Realizations. In the first nine months of 2013, 4 of the significant funds in the investment portfolio of DCMI: Fimi Opportunity II, Fimi Opportunity IV, Vertex Israel II Fund and Vertex Israel III Fund. Regarding the realizations (principally, in respect of the said funds), DCMI has recognized gains in the total amount of NIS 93 million, compared with NIS 63 million in the corresponding period last year.

Investment in dividend paying shares. The Bank's Board of Directors and the Board of DCMI have approved a plan for investment in dividend paying shares, within the framework of a total investment up to a maximum amount of NIS 150 million, in shares of public companies that distribute a significant part of their current profits by way of dividends to shareholders. As of September 30, 2013, DCMI holds the shares of six companies, purchased in off-market transaction, the total value of which in DCMI's books amounts to NIS 62 million.

Super-Pharm. In April 2013, DCMI signed an agreement for the purchase of 10.4% of the share capital of Super-Pharm Israel Ltd. ("Super-Pharm") from the CEO of the company and from Leumi Partners, in the amount of approx. NIS 150 million. Super-Pharm owns a chain of stores marketing pharmaceutical and pharma products, cosmetics and toiletries in Israel, Poland and China. In total Super-Pharm operates 188 stores in Israel and over 40 stores in Poland and China.

Investment in affiliated companies. DCMI invested in two companies in the second quarter of 2013, a total amount of approx. NIS 45 million.

Investment in an investor club. The Bank's Board of Directors approved in the third quarter of the year an investment of up to US$20 million in the investor club "Israel Growth Partners" (IGP). The club is expected to focus on investments in technology companies being in a growth stage (with sales volume of between US$10 and 50 million). The investment in the club will be composed of a commitment to invest and of a co-investment option.

At this stage, the general partner and the intended limited partners in the club are at an advanced stage of forming investment agreements. A first closing is expected until the end of the year.

Additional investments. DCMI is studying additional investments with a view of diversifying its sources of income.

For further details regarding the "Non-financial companies sub-segment", see the 2012 Annual Report (pp. 75-79).

FURTHER DETAILS AS TO ACTIVITY IN CERTAIN PRODUCTS

CREDIT CARD OPERATIONS

GENERAL INFORMATION ON THE OPERATIONS

Following are quantitative data regarding the activity of ICC:

	September 30, 2013		December 31, 2012	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,324	1,140	1,245	1,085
Off-banking cards	804	573	717	522
Total	**2,128**	**1,713**	**1,962**	**1,607**

Transactions turnover	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012	For the year ended December 31, 2012
	in NIS millions		
Bank cards	33,326	31,395	42,172
Off-banking cards	9,220	8,361	11,302
Total	**42,546**	**39,756**	**53,474**

"Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
"Off-banking card" - A credit card issued by ICC, separately from the banks.
"Valid card" - A valid credit card which is not blocked.
"Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
"Active card" - a credit card through which at least one transaction was made in the last quarter.

SCALE OF OPERATIONS AND NET INCOME

Net income in the first nine months of 2013 amounted to NIS 107 million, compared with NIS 135 million in the corresponding period last year, a decrease of 20.7%. The decrease in income was affected, mainly due to the reduction of provisions in the second quarter of 2012, with respect to different proceedings in ICC, including proceedings that have ended.

The credit loss expenses amounted in the first nine months of 2013 to NIS 20 million, compared with NIS 16 million in the corresponding period last year.

Following are the principal data relating to the credit cards operations:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
	For the three months ended September 30, 2013				
Interest income, net					
- From external sources	65	6	4	1	76
- Intersegmental	(7)	(2)	-	-	(9)
Total Interest income, net	58	4	4	1	67
Non-interest financing income	4	-	-	-	4
Commissions and Other income	209	11	9	2	231
Total Income	**271**	**15**	**13**	**3**	**302**
Credit loss expenses	11	1	(1)	-	11
Net Income (loss) Attributed to the Bank's shareholders	**39**	**(2)**	**(1)-**	**(1)**	**36**
Return on equity (percentage)	7.2	(0.8)	-	(0.2)	4.5
Average Assets	8,385	362	386	101	9,234
Average Liabilities	2,512	756	789	211	4,268
	For the three months ended September 30, 2012				
Interest income, net					
- From external sources	67	9	6	2	84
- Intersegmental	(9)	(2)	-	-	(11)
Total Interest income, net	58	7	6	2	73
Non-interest financing income	1	-	-	-	1
Commissions and Other income	195	19	16	4	234
Total Income	**254**	**26**	**22**	**6**	**308**
Credit loss expenses	8	-	-	-	8
Net Income Attributed to the Bank's shareholders	**24**	**9**	**9**	**3**	**45**
Return on equity (percentage)	4.6	4.6	0.8	0.6	6.1
Average Assets	8,354	414	440	115	9,323
Average Liabilities	1,295	1,246	1,306	349	4,196

Footnote:
(1) Amounts lower than NIS 1 million .

Principal data relating to the credit cards operations (continued):

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
	For the nine months ended September 30, 2013				
Interest income, net					
- From external sources	193	20	11	3	227
- Intersegmental	(23)	(6)	-	-	(29)
Total Interest income, net	170	14	11	3	198
Non-interest financing income	5	-	-	-	5
Commissions and Other income	606	33	27	7	673
Total Income	**781**	**47**	**38**	**10**	**876**
Credit loss expenses	20	1	(1)	-	20
Net Income Attributed to the Bank's shareholders	**93**	**7**	**6**	**1**	**107**
Return on equity (percentage)	19.3	14.4	16.9	9.6	13.7
Average Assets	8,193	368	391	103	9,055
Average Liabilities	2,382	770	805	215	4,172
	For the nine months ended September 30, 2012				
Interest income, net					
- From external sources	202	24	13	4	243
- Intersegmental	(27)	(7)	-	-	(34)
Total Interest income, net	175	17	13	4	209
Non-interest financing income	3	-	-	-	3
Commissions and Other income	570	55	43	12	680
Total Income	**748**	**72**	**56**	**16**	**892**
Credit loss expenses	16	-	-	-	16
Net Income Attributed to the Bank's shareholders	**82**	**24**	**22**	**7**	**135**
Return on equity (percentage)	18.2	50.2	81.4	47.3	18.7
Average Assets	8,270	392	416	109	9,187
Average Liabilities	1,823	1,064	1,114	297	4,298

LEGISLATION AND REGULATIONS

Banking Law (Licensing) (Clearing of Charge Card Transactions). The aforesaid law entered into effect upon its publication in August 2011, apart from the provisions relating to opening the clearing market to competition which entered into effect on May 15, 2012. In January 2012, ICC, LeumiCard and IsraCard were defined as "issuer having a wide-ranging activity" (within the meaning of this term in the said legislation amendment). The Supervisor of Banks extended the date for ICC for obtaining a clearing license until March 2014. For further details regarding this law, see the 2012 Annual Report (pp. 82-83). The Supervisor of Banks published on May 8, 2013, a draft of the conditions required for obtaining a clearing license. Among other things, the draft states the conditions relating to the capital required from license holders, duties and regulatory instructions applying to them, conditions applying to whoever controls a license holder, IT requirements and data protection and the reports that a clearing license holder will have to submit to the Supervisor of Banks and to the public.

The (Licensing) (Amendment – Holding of Entities issuing of Credit Cards) Bill, 2013. A private Bill was tabled before the Knesset on April 22, 2013, according to which, a banking corporation shall not control and shall not hold means of control in a company that issues credit cards.

Draft outline of the transition to a "smart card". The Supervisor of Banks issued a draft letter on June 26, 2013, which includes a definition of the preparations required from banking corporations and credit card companies for the transition to the use of a

"smart card", regarding the following: issue of cards, upgrading or replacement of ATM units and the clearing of payments. The letter also defines timetables for completion of the preparations in respect of the above. In accordance with the letter, banking corporations and credit card companies were required to prepare work plans for the implementation of the requirements and allocate the necessary resources.
For details regarding the preparations being made by ICC in this respect, see the 2012 Annual Report (pp. 83-84).
Letter regarding "Prevention of money laundering – operations with an aggregator". On August 5, 2013, the Supervisor of Banks issued a letter which sets limitations and preconditions for clearing transactions of aggregators (trading houses whose activity is concentrating debit and credits of other trading houses). It is required to implement the provisions of the letter within three months of its date of publication.

For details regarding the draft instruction in the matter of "Customer Benefits", see "Legislation and Supervision" below.
For further details as to the legislation concerning the credit card activity, see the 2012 Annual Report (pp. 82-83).

DEVELOPMENTS IN THE OPERATIONS

A joint issuance agreement between ICC and owner banks. For details regarding the signing of new joint issue agreements between ICC, the Bank and FIBI, respectively, including the granting of a capital instrument to FIBI for the purchase of up to 10% of the shares of ICC, see Note 15 to the condensed financial statements.
Cooperation agreement with the "VISA Europe" Organization. ICC and the VISA Europe Organization signed in April 2013 an agreement supporting the tightening of cooperation between them, with a view of bringing about a growth in the scope of use of VISA credit cards marketed by ICC.

For further details regarding the credit card operations, see the 2012 Annual Report (pp. 79-88).

OPERATIONS IN THE CAPITAL MARKET

TREND OF EVENTS AND DEVELOPMENTS IN THE MACRO-ECONOMIC ENVIRONMENT

The mutual funds market. The mutual funds market increased since the beginning of the year by NIS 42.5 billion, compared with an increase of NIS 13.3 billion in the corresponding period last year. In the first nine months of 2013 monetary funds and the mutual funds investing in bonds in Israel continued to raise large amounts of deposits amounting to NIS 21.6 billion and NIS 18.9 billion, respectively. Concurrently, mutual funds investing in Israeli equities raised deposits of only NIS 1.8 billion. On the other hand, the Shekel funds recorded in the said period a net accumulation of approx. NIS 450 million and a negative accumulation of NIS 260 million in funds investing abroad. A review of the trend in recent months shows a decline in volume of accumulation, principally in the monetary funds and in funds specializing in bonds.
According to the Bank of Israel data, assets of mutual funds investing in bonds increased in the said period by NIS 48.4 billion. Assets of the non-linked funds increased by NIS 23.5 billion, assets of the CPI linked funds increased by NIS 18.5 billion, assets of the equity funds increased by NIS 3.3 billion and the assets of funds investing abroad increased by NIS 1.2 billion.
The provident funds market. In the twelve months ended September 30, 2013, provident funds classified as "personal severance pay and provident funds" achieved a positive average return of 9.24%. The increase in return stemmed from the increases in the various indices in the stock exchange.

According to data published by the Capital Markets Division at the Ministry of Finance, provident funds classified as "personal severance pay and provident funds" showed a net withdrawal of funds in the amount of NIS 2.1 billion, in the twelve months ended September 30, 2013, compared to net accumulated withdrawals of NIS 5 billion in the previous twelve months ended September 30, 2012. The volume of provident fund assets as of September 30, 2013 amounted to NIS 177.8 billion, compared to NIS 166.2 billion as of September 30, 2012, an increase of NIS 11.6 billion (approx. 7%).

The new pension funds market. The new pension funds achieved in the twelve months ended September 30, 2013, an average positive return of 11.2%. According to data published by the Capital Market Division at the Ministry of Finance, all the new pension funds showed a positive accumulation of funds in the amount of NIS 17.3 billion in the twelve months ended September 30, 2013, compared to a net positive accumulation of funds of NIS 15.3 billion in the preceding twelve months ended September 30, 2012. The volume of the new pension funds amounted to 139.1 billion as of September 30, 2013, compared to NIS 110.4 billion as of September 30, 2012, an increase of NIS 29.4 billion (approx. 26%).

The basket certificate market. According to data published by the Tel Aviv Stock Exchange, forty-five new basket certificates were issued in the first nine months of 2013. The number of basket certificates based on indices products amounted to 476 at the end of September 2013, of which 291 basket certificates based on domestic and international equity indices, 185 basket certificates based on domestic bond indices, and commodity prices.

Capital Market. For details regarding developments in the capital market in the first nine months of 2013, see "Capital market" hereunder under "Main developments in Israel and around the world in the first nine months of 2013".

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS IN THE CAPITAL MARKET

Legislation and standards amendments with respect to pension savings

On June 1 and July 1, 2013, respectively, the duty to use the events interface and the holdings interface (hereinafter: "the interfaces") entered into effect. The Bank, as well as other entities which are obliged to use the interfaces, has not yet completed its preparations in the matter. Due to the aforesaid, on August 6, 2013 the Association of Banks in Israel appealed to the Capital Market, Insurance and Savings Department of the Ministry of Finance, in a request to allow institutional bodies to continue providing information to license holders through the existing interfaces at their disposal, and this, alongside completing their preparations to establish interfaces and properly deploy them. The Israeli Ministry of Finance has granted its approval, under certain terms, for the period until November 1, 2013. The Bank has updated the Israeli Ministry of Finance that also at this date the interfaces had not been properly integrated (by means of the infrastructure of the Clearing House). In response, the Ministry of Finance informed that at the present time it conducts examinations of the interfaces received through the Clearing House, this alongside a continuous update of the versions of the clearing House, and that the preparedness of the Clearing House in the matter will be examined on November 30, 2013.

Pension clearinghouse. A pension clearinghouse started operations on June 30, 2013. At the first stage, which entered into effect with the beginning of operations of the clearinghouse, though successfully operated only during the course of September 2013, a distributor (being an insurance broker or a pension consultant) may apply through the clearinghouse on behalf of a saver, within the framework of the pre-consulting stage, to all institutional bodies offering pension savings schemes, for information regarding any pension product registered in the name of the saver. In addition, the distributor may apply on behalf of a customer being advised by him, for the said information whether on a single or continuous basis. At the second stage (July 2014) distributors would be able to apply through the clearinghouse for effecting transactions, for the receipt of information relating to the deposit of funds. At the third stage (January 2015) the clearinghouse will enable the clearing of funds and receiving data regarding funds transferred through the clearinghouse.

With the beginning of operations of the clearinghouse, as stated above, the company that operates the clearinghouse published to distributors, among others, preparation and connection rules as well as work procedures. At the same time, the Ministry of Finance continues with the regulation and stabilization of operations of the clearinghouse and users thereof, through the updating of existing circulars (such as deferral of dates stated therein) and the issue of new circulars, among which, a circular dated May 22, 2013, regarding the payment for the use of the central pension clearing system, which will become effective on October 1, 2013, in respect of use fees payable by distributors.

On August 6, 2013, the Israeli Ministry of Finance published a draft circular "Provision of back-office and front-office operating services" the subject of which is the determination of guidelines and principles for the supply by a banking corporation of operating services to an institutional body, in the back-office and in the branches. The draft circular is intended to replace two previous circulars that would be withdrawn upon the final circular becoming effective. To the extent that the draft will become binding, a banking corporation shall be able to continue and provide back-office operating services to an institutional body, which presently has an agreement with the bank for the supply of the said services, in consideration for a maximum amount being equal to the amount in effect at present (0.1% of the value of the assets being serviced) and this no later than December 31, 2020. It is further stated in this respect, that the agreement between the institutional body and the banking corporation regarding the supply of back-office operating services, shall relate only to operations involving the management or operation of the institutional body. With respect to the supply of services at the branches ("front-office operating services") to members of the institutional body, not in the framework of pension consulting, it is determined that the banking corporation would be entitled to enter into an agreement with the institutional body for the supply of such services, and the bank may receive consideration in respect thereof, on condition that the bank would offer these services to all institutional bodies at the same terms and for the same consideration. According to the draft, the circular will enter into effect on January 1, 2014, and it will apply also to existing operating services agreements.

Legislation and regulation amendments in the field of investment consulting, portfolio management and mutual funds

New regulations regarding mutual funds. The Mutual Investments Trust Regulations (Distribution commission) (Amendment), 2013, dealing with the reduction of distribution commissions charged to fund managers by distributors who are not investment marketing agents (mostly banks), were published in the Official Gazette on April 4, 2013. The regulations entered into effect after thirty days following their publication in the Official Gazette.

On May 9, 2013, The Israeli Securities Authority ("ISA") published for public comment legislation amendments and instruction drafts in the matter of Deposit and Loan Fund (DLF), comprising a development, sub-classification of a Shekel monetary mutual fund. The DLF is intended to be an especially solid product earning returns that would reflect the returns earned on "jumbo" deposits and on short-term loans (with a maturity of up to one year) of the Government of Israel. The Authority proposes, among other things, to amend the Consulting Act by empowering the Minister to exclude certain types of financial assets from the definition of the term "financial assets" and to enact regulations which exclude DLF from the definition of the term "financial asset", so as to allow the sale of DLF (though it is a mutual fund) not by the consultant, as if it were a bank deposit. On October 10, 2013, the ISA published the legislation amendment, within the framework of the Memorandum of the Reliefs and Development of the Capital Market Act (Legislation amendments), 2013, as detailed below.

New regulations regarding investment portfolio management. On March 12, 2013, the Israeli Securities Authority published an instruction to large portfolio management companies in the matter of remuneration to external directors, in continuation of the Corporate Governance for Fund Managers and Portfolio Managers Act (Legislation amendments), 2011. The instruction will enter into effect on September 10, 2013 (for further details, see the 2012 Annual Report, p. 93).

Securities Regulations (the manner of offering securities to the public), (Amendment), 2013. On June 3, 2013, the Israeli Securities Authority published the said Bill, which is intended to limit the participation of classified investors in the "institutional tender" stage (preliminary undertakings stage) of a public offering and to limit the securities to be purchased by them, with a view of avoiding the exploitation of this mechanism for obtaining fast profits while harming proper trading.

Draft Securities Regulations (Trustees for Holders of Debt Notes), 2013. A draft of the Regulations was published on June 2, 2013. The Regulations are intended to regulate various matters under Amendments 50 and 51 to the Securities Act (amendments designed to strengthen the protection of investors in debt notes), including, among other things, the obligations of Stock

Exchange members relating to the manner of proof of ownership of debt notes, voting by means of proxy statements and approaching holders by means of statement of position. In these matters, the Regulations determine procedures similar to those existing at the present time in the Companies Act with respect to the proof of share ownership, mutatis mutandis, in particular with respect to dates.

Regulation as regards Internet voting system. The Securities Act (Amendment No. 53), 2013, was published in the Official Gazette on October 31, 2013. For additional details, see the 2012 Annual Report (p. 94).

Legislation proposals in the matter of reliefs and development of the capital market in continuation of the relief outline – Legislation File No.1. The Israeli Securities Authority published on May 26, 2013, a draft legislation file intended to regulate reliefs included in Acts and Regulations being the responsibility of the Israeli Securities Authority. The principal amendments relate to relief regarding enforcement (such as the amounts of sanctions and extending the authority to reduce them), extending the period for the raising of funds under a shelf prospectus from two to three years and relief in the field of investment consulting such as relief in the frequency of performing the duty of updating the information regarding the needs of the customer). In continuation thereto, as the first stage in the implementation of the outline, the Israeli Securities Authority ("ISA") published on October 10, 2013, the Memorandum of the Reliefs and Development of the Capital Market Act (Legislation amendments), 2013 which includes a part of the reliefs published in the said relief outline. According to the ISA, the object of the Memorandum is a measured and balanced reduction, where possible, of regulatory requirements applying to entities regulated by it, while protecting the investor public, with a view of instigating development of the capital market, being an essential factor of economic growth in Israel.

List of acts of commission or omission indicating a violation of the duty of care. The Improvement of Enforcement Measures of the Securities Authority Act (Legislation amendments), 2011, includes an amendment of the Regulating of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management Act, 1995 (hereinafter - "the Consulting Act"), which states that non-compliance with the duty of care according to the Consulting Act constitutes an administrative violation in respect of which a panel of the Administrative Enforcement Committee may impose administrative enforcement means on whoever violated his duty, as stated.

On August 5, 2013, the Israeli Securities Authority published a list of acts of commission or omission which might indicate that whoever committed these acts had not exercised the due care which a reasonable license holder is expected to exercise in similar circumstances, and such matter may serve as a cause of action in starting administrative proceedings.

Interim report of the Committee for the improvement of trading and encouragement of liquidity on the Stock Exchange (headed by Prof. Ben Horin). The said report was published on September 15, 2013, for public comment. The Committee has been established on the background of the low trading turnover on the Stock Exchange in recent years. The Committee has been asked to examine and propose alternatives for improvement of trade and encouragement of liquidity of securities listed for trade on the Stock Exchange. Among other things, the report includes recommendations regarding the launching of new financial products, trading methods and trading orders, the structure of trade commissions, the setting-up of securities lending reservoir, the encouragement of foreign investors, etc.

For details regarding the repricing of commissions on securities operations, see Note 16 to the condensed financial statements.

For further details regarding legislative restrictions, regulations and special constraints applicable to the operations in the capital market, see 2012 Annual Report (pp. 90-95).

SCALE OF OPERATIONS AND NET INCOME

The gain recorded from operations in the first nine months of 2013 amounted to NIS 21 million, compared to NIS 36 million in the corresponding period last year, a decrease of 41.7%.

Principal data relating to the operations in the capital market:

	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
	For the three months ended September 30, 2013								
Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	1	1	-	-	-	-	2	-	2
Commissions and Other income	59	10	15	2	12	(1)	97	12	109
Total Income	**60**	**11**	**15**	**2**	**12**	**(1)**	**99**	**12**	**111**
Net Income (loss) Attributed to the Bank's shareholders	**(1)**	**2**	**3**	**-**	**1**	**(2)**	**3**	**4**	**7**
Average Assets	-	-	25	-	-	2	27	-	27
Average Liabilities	-	-	2	-	-	2	4	-	4
	For the three months ended September 30, 2012(1)								
Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	(2)2	(2)1	(2)1	-	-	-	4	-	4
Commissions and Other income	(2)54	(2)9	(2)11	3	9	-	86	(3)13	99
Total Income	**56**	**10**	**12**	**3**	**9**	**-**	**90**	**13**	**103**
Net Income (loss) Attributed to the Bank's shareholders	**8**	**-**	**1**	**(1)**	**(2)**	**-**	**6**	**2**	**8**
Average Assets	-	-	27	-	-	-	27	-	27
Average Liabilities	-	-	1	-	-	-	1	-	1

Notes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified, see Note 1 D 2 (1).
(3) Reclassified – classification of certain commissions to "Capital market".

Principal data relating to the operations in the capital market (continued):

	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
	For the nine months ended September 30, 2013								
Total Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	4	2	3	-	-	-	9	-	9
Commissions and Other income	164	29	41	7	32	5	278	43	321
Total Income	**168**	**31**	**44**	**7**	**32**	**5**	**287**	**43**	**330**
Net Income (loss) Attributed to the Bank's shareholders	**10**	**2**	**7**	**-**	**(3)**	**(3)-**	**16**	**5**	**21**
Average Assets	-	-	24	-	-	2	26	-	26
Average Liabilities	-	-	2	-	-	2	4	-	4
	For the nine months ended September 30, 2012(1)								
Total Interest income, net	-	-	1	-	-	-	1	-	1
Non-interest financing income	(2)5	(2)2	(2)1	-	-	-	8	-	8
Commissions and Other income	(2)166	(2)25	(2)36	8	28	-	263	39	302
Total Income	**171**	**27**	**38**	**8**	**28**	**-**	**272**	**39**	**311**
Net Income (loss) Attributed to the Bank's shareholders	**29**	**1**	**6**	**-**	**(4)**	**-**	**32**	**4**	**36**
Average Assets	-	-	29	-	-	-	29	-	29
Average Liabilities	-	-	1	-	-	-	1	-	1

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified, see Note 1 D 2 (1).
(3) Amounts lower than NIS 1 million .

DATA RELATING TO THE SCALE OF OPERATIONS IN DIFFERENT AREAS

Securities. On September 30, 2013, the balance of securities held for the Bank's customers amounted to NIS 141.9 billion, including NIS 7.8 billion of non-marketable securities, compared to approx. NIS 122 billion as at December 31, 2012, including NIS 7.2 billion of non-marketable securities, an increase of approx. 16.3% (For details as to income from security activities, see Note 11 to the condensed financial statements).

In addition, on September 30, 2013, Mercantile Discount Bank held securities on behalf of customers in an amount of approx. NIS 12.9 billion, compared to NIS 10 billion on December 31, 2012, an increase of approx. 29%.

Investment portfolio management. On September 30, 2013, Tachlit Discount – Portfolio Management was managing 2,323 investment portfolios, which together were valued at approx. NIS 4,458 million, as compared to 2,002 portfolios valued in total at approx. NIS 3,963 million as at December 31, 2012. The above data point to an increase of 16.0% in the number of portfolios managed and to an increase of approx. 12.5% in the monetary value of the managed portfolios.

Pension advisory services. As from the start of operations in March 2008 and until the end of September 2013, advisory services were provided to some 84 thousand customers. The accumulation of customer assets, to whom advice has been provided, amounted to NIS 11.4 billion, in the said period.

For further details regarding the operations in the capital market, see the 2012 Annual Report (pp. 88-99).

CONSTRUCTION AND REAL ESTATE ACTIVITY

DEVELOPMENT IN MARKETS OF THE ACTIVITY

Residential property. As indicated by the freehold residential units price index, the prices of residential units increased in the period from January to August 2013 by 5.3%. An increase of 1.1% in residential units prices was recorded during the months July-August. Supply and demand factors still support the rise in residential units prices, among other, the negative real-term interest rate and construction beginnings, which respond only to the annual additional demand.

Beginning of construction projects. The number of beginnings of construction projects increased in the first half of 2013[1] by 3.6%, as compared with the second half of 2012, and decreased by 5.9% compared with the corresponding period last year.

The average monthly amount of mortgage loans granted in the third quarter of 2013, was slightly higher than the monthly average since the beginning of the year (approx. NIS 4.3 billion) reaching NIS 4.4 billion. The months of July and August were typified by higher than the average amount of mortgages granted (NIS 5 billion and NIS 4.8 billion, respectively), though in September the volume of new mortgage loans declined to NIS 3.5 billion, due to the seasonal effect of the High Holidays period. The balance of the housing loan debt increased from the beginning of the year to the end of August by 6.5%.

Income generating real estate. A slight reduction in prices of office premises was recorded in peripheral areas of Tel Aviv and in the Haifa and Northern Region, due to an increase in supply. High occupancy rates exist in the commercial real estate sector with stability in rental prices. Notwithstanding, significant supply exists in land areas intended for the construction of commercial centers, which would increase supply in the coming years. The slowdown indications in the market may lead to a decline in proceeds and in rental prices.

LEGISLATIVE AND REGULATORY LIMITATIONS AND SPECIAL CONSTRAINTS APPLYING TO THE ACTIVITY

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector stood at a rate of 17.3% as of September 30, 2013.

Amendment No. 70 of the Property Tax Law. The validity of Amendment No. 70 of the Property Tax Law (Betterment and acquisition), amending item 15 of the Property Tax Law was extended on October 1, 2013, until December 31, 2013. For additional details, see the 2011 Annual Report (pp. 114-115).

[1] It should be noted that the data is updated as of the first half of 2013, because as of date of printing this report more updated data has not been published.

Amendments to the Property Tax Law. The Property Tax Law was amended on August 5, 2013. In accordance with the amendment, among other things, the rates of acquisition tax were increased and changes were made to the provisions of the fifth chapter 1 of the Act, according to which, prior to the said amendment, exemption from land betterment tax had been enacted in respect of the sale of residential unit. The significance of the said amendments is the increase in the effective rate of acquisition tax applying to the purchase of residential and non-residential unit as well as the abolition of the exemption from land betterment tax applying up until now to the sale once in four years of a qualified residential unit.

SCALE OF OPERATIONS AND NET PROFIT

Net profit from operations in the first nine months of 2013 amounted to NIS 203 million, compared with NIS 242 million in the corresponding period last year, a decrease of 16.1%.

The credit loss expenses in the first nine months of 2013, amounted to NIS 59 million, compared with NIS 28 million in the corresponding period last year.

Results of construction and real estate activity were affected by borrowers' activity in the local and international markets, as detailed below:

Local activity – Income in the first nine months of 2013 amounted to NIS 413 million, compared to NIS 431 million in the corresponding period last year, a decrease of 4.2%. Furthermore, net income recorded a decrease down to NIS 196 million, compared to NIS 241 million in the corresponding period last year.

International activity – Income in the first nine months of 2013 amounted to NIS 106 million, compared to NIS 86 million in the corresponding period last year, an increase of 23.3%, attributed in whole to an increase in interest income.

Principal data relating to the construction and real estate operations:

	Domestic operations				International operatins			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
	For the three months ended September 30, 2013							
Interest income, net								
- From external sources	13	145	33	191	30	2	32	223
- Intersegmental	(2)	(75)	(12)	(89)	(7)	3	(4)	(93)
Total Interest income, net	11	70	21	102	23	5	28	130
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	7	21	7	35	7	3	10	45
Total Income	**18**	**92**	**28**	**138**	**30**	**8**	**38**	**176**
Credit loss expenses	(1)	26	5	30	7	1	8	38
Net Income Attributed to the Bank's shareholders	**10**	**31**	**8**	**49**	**6**	[(2)]**-**	**6**	**55**
Return on equity (percentage)	4.2	3.1	1.9	2.9	1.4	-	1.1	2.4
Average Assets	968	11,497	3,367	15,832	3,863	2,059	5,922	21,754
Average Liabilities	724	1,650	824	3,198	808	464	1,272	4,470
	For the three months ended September 30, 2012[(1)]							
Interest income, net								
- From external sources	9	179	31	219	28	10	38	257
- Intersegmental	2	(108)	(6)	(112)	(7)	(2)	(9)	(121)
Total Interest income, net	11	71	25	107	21	8	29	136
Non-interest financing income	-	-	-	-	-	-	-	-
Commissions and Other income	5	28	7	40	4	-	4	44
Total Income	**16**	**99**	**32**	**147**	**25**	**8**	**33**	**180**
Credit loss expenses	3	(17)	8	(6)	1	21	22	16
Net Income (loss) Attributed to the Bank's shareholders	**7**	**66**	**10**	**83**	**15**	**(7)**	**8**	**91**
Return on equity (percentage)	3.6	6.4	2.0	4.6	3.1	(0.7)	1.8	20.1
Average Assets	791	12,786	3,358	16,935	3,300	2,176	5,476	22,411
Average Liabilities	634	1,991	969	3,594	788	266	1,054	4,648

Footnote:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Amounts lower than NIS 1 million .

Principal data relating to the construction and real estate operations (continued):

	Domestic operations				International operatins			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
	For the nine months ended September 30, 2013							
Interest income, net								
- From external sources	38	383	96	517	88	15	103	620
- Intersegmental	(5)	(188)	(23)	(216)	(20)	(1)	(21)	(237)
Total Interest income, net	33	195	73	301	68	14	82	383
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	17	73	21	111	18	6	24	135
Total Income	**50**	**269**	**94**	**413**	**86**	**20**	**106**	**519**
Credit loss expenses	(4)	30	2	28	20	11	31	59
Net Income (loss) Attributed to the bank's shareholders	**29**	**123**	**43**	**195**	**16**	**(8)**	**8**	**203**
Return on equity (percentage)	60.5	12.2	17.6	11.0	5.2	(7.5)	1.5	8.8
Average Assets	910	11,843	3,331	16,084	3,789	1,981	5,770	21,854
Average Liabilities	722	1,942	868	3,532	850	360	1,210	4,742
	For the nine months ended September 30, 2012(1)							
Interest income, net								
- From external sources	33	467	91	591	84	14	98	689
- Intersegmental	(1)	(250)	(22)	(273)	(20)	(3)	(23)	(296)
Total Interest income, net	32	217	69	318	64	11	75	393
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	14	77	21	112	9	2	11	123
Total Income	**46**	**295**	**90**	**431**	**73**	**13**	**86**	**517**
Credit loss expenses	(2)	(34)	10	(26)	11	43	54	28
Net Income (loss) Attributed to the bank's shareholders	**26**	**180**	**35**	**241**	**32**	**(31)**	**1**	**242**
Return on equity (percentage)	63.1	17.5	14.6	13.7	15.6	(31.9)	0.3	11.2
Average Assets	767	12,854	3,196	16,817	3,138	1,522	4,660	21,477
Average Liabilities	630	2,135	823	3,588	640	152	792	4,380

Footnote:
(1) Reclassified, see "General" above, at the beginning of this Chapter.

For further details regarding the construction and real estate activity, see the 2012 Annual Report (pp. 99-108).

MORTGAGE ACTIVITY

DEVELOPMENTS IN THE MORTGAGE MARKET

	For the nine months ended September 30		
	2013	2012	Rate of change in %
	in NIS millions		
Total housing loans granted by the mortgage banks, excluding internal recycling of loans	41,726	38,292	9.0
Loans from State funds	176	199	(11.6)

DEVELOPMENTS IN THE SEGMENT

Service. Within the framework of the Bank's policy regarding broadening the disposition of the mortgage loan services at the Bank's branches, additional branches were qualified from the beginning of the year to provide this service. At the present time, eighty three of the Bank branches provide mortgage services.

The Bank focuses on the granting of mortgage loans as a tool for sustaining the relationship with existing customers. Since the merger of DMB, the Bank invests in widening the knowhow of the staff engaged in this field and in the improvement of procedures.

LEGISLATIVE RESTRICTIONS AND REGULATIONS

Amendment of Proper Conduct of Banking Business Directive No. 318 – Collateral data base. On August 5, 2013, the Supervisor of Banks published a circular amending the Directive, according to which a banking corporation will be required to extend the collateral data base and include therein also detailed data regarding collateral for housing loans. Details of the data to be maintained in the data base in respect of each residential unit serving as collateral for a housing loan are specified in an appendix to the Directive and include details regarding the type of the asset, its location in the building, its address, size, value, existence of any attached areas, existence of a bomb protected area in the unit, etc. In addition a banking corporation will have to maintain in the data base documentation regarding the Loan to Value (LTV) and the ratio of repayments to income, as defined in Reporting to the Supervision Department Directive No. 876. In accordance with the Directive, the changes in the Directive will become effective on July 1, 2014.

Banking Order – early repayment commission. The 2012 Annual Report (pp. 111-112) described a proposal for the amendment of the Banking Order – early repayment commission, 2002. An updated draft of the proposal was published on March 19, 2013, which included a distinction between early repayments of loans granted prior to the amendment becoming effective, and those that will be granted subsequently to the amendment becoming effective.

GUIDELINES AND DIRECTIVES OF THE SUPERVISOR OF BANKS DESIGNED TO RESTRAIN THE MORTGAGE MARKET

Guidelines regarding limitations on the grant of housing loans

On August 29, 2013, the Supervisor of Banks published guidelines regarding limitations on the grant of housing loans (mortgages). The new guidelines regarding housing loans restrict as follows:

- The percentage of the monthly repayment out of the income – a banking corporation will not approve a mortgage when the monthly mortgage repayment exceeds 50% of the borrower's monthly income. Housing loans in which the monthly mortgage repayment ranges between 40% and 50% of the borrower's monthly income, will be weighted at 100% in the calculation of the capital adequacy ratio.
- The portion of the loan granted at variable interest – a banking corporation will not approve a housing loan when the ratio of the portion of the housing loan at variable interest to the total loan exceeds 66.7% (two thirds). The restriction will apply to loans at variable interest for all time periods, and supplements the existing restriction which limits to one third the portion of the housing loan granted at variable interest for a period shorter than 5 years.
- The period to final repayment of the loan – a banking corporation will not approve a housing loan for a period to final repayment exceeding 30 years.

A banking corporation will not approve and will not refinance a loan, if as a result of such refinancing one of the restrictions provided above is deviated from, or such deviation which already existed at the time of the refinancing increases.

The object of the guidelines is to strengthen the resistance of borrowers and the banking industry to possible negative effects that might be caused by future increases in interest rates.

The guidelines will apply to housing loans approved in principle starting on September 1, 2013. On September 15, 2013, the Supervisor of Banks issued a clarification regarding the transition instructions included in the guidelines.

For details regarding the instruction of the Supervisor of Banks regarding "the updating of guidelines relating to housing real estate", see Note 1 E 6 and Note 5 to the condensed financial statements.

For details regarding additional guidelines and instructions of the Supervisor of Banks in this respect, see the 2012 Annual Report (pp. 112-113).

SCALE OF OPERATIONS AND NET PROFIT

The loss of the segment in the first nine months of 2013 amounted to NIS 21 million, compared to a net income in the amount of NIS 42 million in the corresponding period last year. The decline in profits of the segment results from an increase in expenses for credit losses, as detailed below, and from a decline in the interest margin, which in part reflects the difference in the profitability measurement model, prior to the merger with Discount Mortgage Bank (in DMB itself) and thereafter (in the Bank).

The credit loss expenses. In the first nine months of 2013, an expense in the amount of NIS 31 million was recorded compared with an expense reduction of NIS 2 million in the corresponding period last year. The increase in expenses in the first nine months of 2013 stemmed mainly from a non-recurring allowance required in light of the directives of the Supervisor of Banks (see Note 1 E 6).

Principal data relating to the mortgage activity:

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
	For the three months ended September 30, 2013			
Interest income, net				
- From external sources	302	15	4	321
- Intersegmental	(291)	(10)	-	(301)
Total Interest income, net	11	5	4	20
Non-interest financing income	(1)	-	-	(1)
Commissions and Other income	15	-	-	15
Total Income	**25**	**5**	**4**	**34**
Credit loss expenses	(1)	(5)	-	(6)
Net Income (loss) Attributed to the Bank's shareholders	**(2)**	**4**	**3**	**5**
Return on equity (percentage)	(0.4)	1.7	0.7	0.6
Average Assets	20,046	959	342	21,347
Average Liabilities	35	2	1	38
	For the three months ended September 30, 2012[(1)]			
Interest income, net				
- From external sources	77	10	6	93
- Intersegmental	(29)	(5)	(1)	(35)
Total Interest income, net	[(2)]48	5	5	58
Non-interest financing income	3	2	-	5
Commissions and Other income	11	-	-	11
Total Income	**62**	**7**	**5**	**74**
Credit loss expenses	2	(3)	-	(1)
Net Income Attributed to the Bank's shareholders	**19**	**5**	**2**	**26**
Return on equity (percentage)	3.6	2.5	0.4	3.3
Average Assets	19,983	1,133	279	21,395
Average Liabilities	765	21	-	786

Footnotes:
(1) Reclassified – see "General" above, at the beginning of this Chapter.
(2) Reclassified - classification of the computed reduction in the transfer price in respect of mortgage loan activity regarding "Discount outline" from the "Banking and finance" item to the "Mortgages" item.

Principal data relating to the mortgage activity (continued):

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
	For the nine months ended September 30, 2013			
Interest income, net				
- From external sources	724	39	8	771
- Intersegmental	(669)	(26)	(2)	(697)
Total Interest income, net	55	13	6	74
Non-interest financing income	-	-	-	-
Commissions and Other income	25	1	-	26
Total Income	**80**	**14**	**6**	**100**
Credit loss expenses	40	(8)	(1)	31
Net Income (loss) Attributed to the Bank's shareholders	**(32)**	**7**	**4**	**(21)**
Return on equity (percentage)	(5.5)	15.1	13.0	(2.4)
Average Assets	19,956	967	370	21,293
Average Liabilities	23	2	1	26
	For the nine months ended September 30, 2012[1]			
Interest income, net				
- From external sources	170	34	7	211
- Intersegmental	(60)	(14)	(1)	(75)
Total Interest income, net	[2]110	20	6	136
Non-interest financing income	6	3	-	9
Commissions and Other income	28	2	-	30
Total Income	**144**	**25**	**6**	**175**
Credit loss expenses	3	(5)		(2)
Net Income Attributed to the Bank's shareholders	**24**	**15**	**3**	**42**
Return on equity (percentage)	4.6	27.0	17.2	5.1
Average Assets	19,919	1,157	309	21,385
Average Liabilities	983	31	-	1,014

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified - classification of the computed reduction in the transfer price in respect of mortgage loan activity regarding "Discount outline" from the "Banking and finance" item to the "Mortgages" item.

For further details regarding the mortgage activity - housing loan, see the 2012 Annual Report (pp. 108-113). For details regarding credit risk relating to housing loans, see below under "Exposure to risk and risk management".

INTERNATIONAL OPERATIONS

GENERAL

Discount Group's overseas operations are carried out primarily by the Bank's subsidiaries in the United States and Uruguay (including representative offices in Latin America), by a subsidiary in Switzerland, and by means of the Bank's branch in London.

SCALE OF OPERATIONS AND NET PROFIT

Net profit of the operations in the first nine months of 2013 amounted to NIS 119 million, compared with NIS 84 million in the corresponding period last year, an increase of 41.7%.

The credit loss expenses in this segment amounted to NIS 44 million in the first nine months of 2013, compared to NIS 128 million in the corresponding period last year, a decrease of 65.6%.

Principal data relating to the international operations:

	Households	Corporate Banking	Middle Market Banking	Private Banking	financial management	Total
			in NIS millions			
		For the three months ended September 30, 2013				
Interest income, net	(1)-	39	50	59	23	171
Non-interest financing income	(1)-	-	-	-	13	13
Commissions and Other income	(1)-	16	14	44	(14)	60
Total Income	**(1)-**	**55**	**64**	**103**	**22**	**244**
Credit loss expenses	(1)-	5	4	-	2	11
Net Income Attributed to the Bank's shareholders	**(1)-**	**11**	**18**	**9**	**8**	**46**
Return on equity (percentage)	-	1.1	4.3	8.5	1.2	2.5
Average Assets	18	8,009	7,690	2,852	18,958	37,527
Average Liabilities	53	2,170	2,085	17,435	12,061	33,804
		For the three months ended September 30, 2012				
Interest income, net	(1)-	45	56	69	28	198
Non-interest financing income	(1)-	-	-	-	27	27
Commissions and Other income	(1)-	12	10	41	-	63
Total Income	**(1)-**	**57**	**66**	**110**	**55**	**288**
Credit loss expenses	(1)-	23	10	-	10	43
Net Income (loss) Attributed to the Bank's shareholders	**(1)-**	**9**	**15**	**8**	**(4)**	**28**
Return on equity (percentage)	-	0.8	3.1	8.5	(0.9)	1.4
Average Assets	16	(2)8,535	(2)7,787	(2)2,470	(2)19,853	38,661
Average Liabilities	182	2,245	2,178	19,929	9,255	33,789

Footnotes:
(1) Amounts lower than NIS 1 million.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.

Principal data relating to the international operations (continued):

	Households	Corporate Banking	Middle Market Banking	Private Banking	financial management	Total
	in NIS millions					
	For the nine months ended September 30, 2013					
Interest income, net	(1)-	112	147	174	57	490
Non-interest financing income	(1)-	-	-	13	31	44
Commissions and Other income	(1)-	41	37	140	(37)	181
Total Income	**(1)-**	**153**	**184**	**327**	**51**	**715**
Credit loss expenses	(1)-	23	32	2	(13)	44
Net Income Attributed to the Bank's shareholders	**(1)-**	**26**	**36**	**42**	**15**	**119**
Return on equity (percentage)	(1)-	5.8	6.3	20.3	6.0	6.1
Average Assets	18	7,845	7,960	2,782	20,678	39,283
Average Liabilities	53	2,120	2,179	17,807	12,505	34,664
	For the nine months ended September 30, 2012					
Interest income, net	(1)-	115	191	192	40	538
Non-interest financing income	(1)-	-	-	3	119	122
Commissions and Other income	(1)-	36	32	115	(9)	174
Total Income	**(1)-**	**151**	**223**	**310**	**150**	**834**
Credit loss expenses	(1)	64	49	1	14	128
Net Income (loss) Attributed to the Bank's shareholders	**(1)**	**8**	**36**	**(1)-**	**41**	**84**
Return on equity (percentage)	(75.7)	2.1	5.8	0.6	30.0	4.6
Average Assets	12	(2)6,535	(2)8,827	(2)2,532	(2)20,111	38,017
Average Liabilities	82	1,907	2,014	19,899	9,243	33,145

(1) Amounts lower than NIS 1 million.
(2) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.

DEVELOPMENTS IN THE SEGMENT

Agreement between the Swiss Authorities and the U.S. Department of Justice. On August 29, 2013, the Swiss Authorities and the U.S. Department of Justice announced a program for the regularization of disputes regarding tax evasion by U.S. citizens in Swiss bank accounts (Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks). The program is limited to Swiss banks that are not involved in investigations by the U.S. Department of Justice or in proceedings against it.

The program differentiates between a number of bank categories, the main differentiation being between banks that declare to the U.S. Department of Justice, that since August 2008 they did not violate any duty relating to tax laws with respect to their U.S. customers and that they did not assist them in evading taxes. This declaration is to be based upon an examination performed by an independent examiner. The other, banks that are of the opinion that they are unable to make such declaration.

In accordance with the program, a bank that that would declare that he had not committed violations as above, could apply to the U.S. Department of Justice, as from July 1, 2014 and until October 31, 2014, requesting the issue of a confirmation that it is not being a target for enforcement actions by the Department (Non-Target Letter). In the event that it is found retroactively that the report of the examiner does not support the original declaration made by this bank, the matter would be left to the discretion of the U.S. Department of Justice.

A bank, that is of the opinion that a violation, as stated above, may have been committed by it, may under the program apply to the U.S. Department of Justice until December 31, 2013, with a request to sign an agreement avoiding criminal proceedings against the bank (Non-Prosecution Agreement), and this after receipt and examination by the Department of Justice of the report by the independent examiner submitted by the bank, and subject to the consent by the bank to pay a fine, the amount of which is derived from the volume of funds held by its U.S. customers.

The said alternatives of the program require the delivery to the U.S. Department of Justice of information of various scopes, where in the case of a "non-prosecution agreement", detailed information regarding the said accounts will be required.

Despite the ambiguity existing with respect to certain of the components of the program and their interpretation, the timetable set by the program limits the possible response time for banks that elect to join the program. Accordingly, IDB (Swiss), with the assistance of outside consultants, is in the midst of studying the agreement, its possible implications, and the mode of action derived there from and examination of the data relating to customer accounts relevant to the program.

The Bank believes that the said above may have significant implications on IDB (Swiss), though at this stage these cannot be quantified.

IDB (Swiss). The Zurich representative office was closed down and IDB (Swiss) is presently operating through its head office in Geneva.

Representative office of the Bank in France. The Paris representative office was closed down in recent months.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS

Exposure restriction with regard to overseas extensions. As of September 30, 2013 the calculated rate of the Bank's exposure with respect to overseas offices was 20.22% of the total risk assets, as compared with 19.47% on December 31, 2012. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group adopted on April 10, 2013 (for additional details see 2012 Annual Report, pp. 113-114). It should be noted that in computing the exposure as of September 30, 2013, risk assets in respect of the operational risk had been taken into account, in accordance with the limitations determined by the Board of Directors, as stated, while this component is not included in the computation of exposure as of December 31, 2012. The Bank reviews developments in the calculated rate of exposure regarding its activity at the overseas extensions.

For further details regarding the "International Operations", see the 2012 Annual Report (pp. 113-117).

EXPOSURE TO RISKS AND RISK MANAGEMENT

RISK PROFILE OF THE DISCOUNT GROUP

For details regarding the risk profile of the Discount Group, see 2012 Annual Report (pp. 117-121).

For details regarding Risk Management Principles and Tools, and Corporate Governance for risk management, see 2012 Annual Report (pp. 121-127)

BASEL II AND THE REGULATORY CAPITAL REQUIREMENTS

DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL II

It should be noted that certain data, the disclosure of which is required according to the third Pillar of Basel II, is presented in the Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B", items 1-7). Furthermore, the said Annex includes a table relating the disclosure requirements according to the third Pillar to the data presented in the Report (Part "B", item 8).

For details regarding Basel III, see 2012 Annual Report (pp. 130-131).

REGULATORY FRAMEWORK FOR RISK MANAGEMENT

INSTRUCTIONS PUBLISHED DURING THE FIRST NINE MONTHS OF 2013

Amendment of Proper Conduct of Banking Business Directives in the matter of "Basel III". On June 3, 2013, the Supervisor of Banks issued amendments Proper Conduct of Banking Business Directives Nos. 201-205, 208 and 211, which includes amendments of existing measurement rules regarding capital adequacy ("Basel II" principles), as well as new guidelines designed to integrate the principles of the Basel Committee document published in December 2010 ("Basel III" principles) relating mainly to the improvement of the "capital base" quality and to enhancing "risk coverage", as detailed hereunder:

- Stricter criteria have been introduced for the recognition of capital components that would be included within the framework of the Tier I capital and would principally include: share capital, retained earnings and capital reserves (including premium on shares);
- A new capital tier has been added – "additional Tier I" to include perpetual capital debt instruments (which may be eligible for early redemption only after five years from date of their issue and subject to a prior approval of the Supervisor of Banks) and which include mechanisms for "loss absorption", including:
  - Cessation of interest payments to holders of the instrument, at the sole discretion of the issuing bank, and automatic conversion of the debt instrument into shares in certain defined circumstances or at the Supervisor's request;
  - Automatic conversion of the debt instrument into shares whenever the "Tier 1 capital" ratio falls under 7% or after an announcement from the Supervisor of Banks is received, according to which conversion of the debt instrument into shares is necessary to maintain the stability of the issuing banking corporation ("non-viability" event).
- The differentiation existing in the "Basel II principles" between the two types of capital in Tier II ("Tier II" and "Upper Tier II") has been cancelled and accordingly the capital of Tier II will include only one tier. Furthermore, stricter criteria have been applied for the recognition of capital debt instruments issued by the banking corporation, as "Tier II capital components", as follows:
  - The instruments will be issued for a period of at least five years, and will be eligible for early redemption only after the elapse of five years from their issue date, subject to the prior approval of the Supervisor of Banks.
  - The instrument will include "loss absorption" mechanisms that will allow automatic conversion into shares whenever the "Tier 1 capital ratio" falls under 5%, or after the Supervisor of Banks notifies that the conversion of the debt instrument into shares is necessary to maintain the stability of the issuing banking corporation (a "non viability" event).

  On the other hand, banking corporations will be permitted to include within the framework of "Tier II" capital components also the balance of the allowance for credit losses computed on a group basis (subject to a maximum amount equal to 1.25% of the weighted average risk assets in respect of credit risk, as defined in the instructions).
- Stricter regulatory adjustments in respect of the capital means have been introduced, as well as additional components to be deducted from the Tier I capital, including:
  - Accounting adjustments in respect of the bank's credit risk (DVA) included in the fair value of liabilities regarding derivative instruments.
  - Deferred tax assets the realization of which is based on the future profitability of the banking corporation.

- "Excess deferred taxes" comprising the balance of the deferred tax assets derived from timing differences, which exceeds 10% of the Tier I capital (until January 1, 2018 – the part exceeding 15% of the Tier I capital).
- A minimum total capital ratio of 12.5% is to be determined for weighted average risk assets.

- The Directive includes "transitional instructions" permitting the gradual adoption of the new guidelines included in the Directive relating to the stricter criteria for the recognition of capital and for deductions from capital, as follows:
  - The requirements for the deduction of "excess deferred taxes" shall be applied gradually in the years 2014-2016 (hereinafter: "the transitional period") and shall be adopted in full as from January 1, 2017. The gradual adoption will include the deduction of a certain part only of the "excess deferred taxes" (as defined in the amendment), and the recognition of the other part as a "risk asset".
  - Whereas the debt notes that had been issued in the past by the banking corporations do not comply with the criteria for the recognition as a "Tier II" capital component (due to the fact that they do not include a loss absorption mechanism), the transitional instructions established a mechanism for the gradual adoption of the criteria for the recognition as regulatory capital of the said debt notes, which will apply in the years 2014-2022 (hereinafter: "the transitional period"), according to which the said debt notes will be partly recognized as "Tier II" capital in the transitional period, at diminishing rates, until their complete elimination at the end of the transitional period.

The amendments to the Directives will come into effect on January 1, 2014.

Proper Conduct of Banking Business Directive in the matter of "interest risk management". For details see below.

Various Directives in the field of credit risk management. For details see below.

CREDIT RISK MANAGEMENT

Credit risk is the risk of damage to the Bank's value and profitability following deterioration in the ability of borrowers to honor their obligations or due to a decline in the quality of borrowers and in the value of the collateral provided by them to the Bank. For general details and for qualitative disclosure regarding credit risk management, see 2012 Annual Report (pp. 133-141).

Proper Conduct of Banking Business Directive No. 311 in the matter of "credit risk management". As required by the Directive, the Bank delivered to the Supervisor of Banks on July 1, 2013, a plan for the implementation of the principles of the Directive and the modifications planned by the Bank. A feedback process is being conducted in recent months with the Supervisor of Banks with respect to the closing of the gaps, and the Bank is acting in accordance with the guidelines of the Supervisor. (For additional details regarding the Directive, see 2012 Annual Report, p. 131 and p. 133).

Proper Conduct of Banking Business Directive No. 314 in the matter of "Proper assessment of credit risk and proper measurement of debts". This Directive was published on April 30, 2013. It is principally based upon the Basel document of June 2006, with modifications to the requirements of the Public Reporting Instructions. The Directive includes requirements regarding the measurement of credit risk, control over procedures for assessment of the risk and definitions of responsibilities of the different functionaries. The Appendix to the old Directive in the matter of problematic debts in housing loans had been maintained and attached to the new Directive.

The principal subject that has to be focused on is the principle that the process of assessment of credit risk by the banking corporation shall provide it with the essential tools, procedures and data required for the following targets: (1) assessment of credit risk, (2) accounting treatment and (3) capital adequacy. Meaning, that the essence of the Directive requires a single process the center of which is credit rating that would serve the above three targets: risk management, allowances based on the anticipated loss (EL) and capital adequacy based on unexpected losses (UL).

Update of various instructions. On June 3, 2013, the Supervisor of Banks published various updates to Proper Conduct of Banking Business Directives. Among other things, the Directives have been updated due to the requirement arising from the publication of the Basel III document: "Global regulatory framework for more resilient banks and banking systems".

- Measurement and capital adequacy – regulatory capital (Proper Conduct of Banking Business Directive No. 202)
  - The deductions from capital are now spread over a period of five years as from January 1, 2014, compared to the previous spread of four years;
- The standard approach to credit risk (Proper Conduct of Banking Business Directive No. 203)
  - Housing loans – updating the risk weights according to the LTV;
  - Updating of sections dealing with loans in arrears – the treatment of loans in arrears is required also for impaired debts that do not accrue interest income;
  - The CCF for guarantees under the Sales Act, in respect of delivered residential units, was reduced from 20% to 10%;
  - A requirement has been added, according to which a bank has to determine management, control and reporting policies in relation to spread agreements and securities financing transactions;
  - A requirement has been added for an additional allocation of capital in respect of CVA losses;
- The internal rating based approach to credit risk (Proper Conduct of Banking Business Directive No. 204)
  - Increase in capital allocation in respect of exposure to supervised financial corporations the asset value of which exceeds US$100 billion, and in respect of exposure to non-supervised financial corporations;
- Securitization (Proper Conduct of Banking Business Directive No. 205)
- Evaluation of appropriateness of capital adequacy (Proper Conduct of Banking Business Directive No. 211)
- A guideline has been added, which determines that a banking corporation has to evaluate the risk inherent in credit exposure and decide whether the weight of risk allocated to such exposure, under the standard approach, matches the risk inherent therein;
- Review of the credit risk management system relating to counterparty – expansion of the contents of the independent annual review of the management of credit risk applying to a counterparty to include the treatment of collateral pledged in respect of such exposure, and the appropriateness of the legal terms in relation thereto;
- Limitation on indebtedness of a borrower and group of borrowers (Proper Conduct of Banking Business Directive No.313)
  - The CCF for guarantees under the Sales Act, in respect of delivered residential units, was reduced from 20% to 10%;
  - The amount of indebtedness in respect of the "supplement coefficient", reflecting the potential future exposure during the balance of the life of the agreement, was reduced in order to modify it to the requirement of Appendix "C" to Proper Conduct of Banking Business Directive No. 203 (this change will be effective as from January 1, 2014, and thereafter).

CHANGES IN THE ORGANIZATIONAL STRUCTURE OF THE CREDIT RISK MANAGEMENT FUNCTION

As part of the implementation of Proper Conduct of Banking Business Directive No. 311, the "second opinion" unit was transferred on July 1, 2013, from the risk management department of the Corporate Division to the Risk Management Group. Within the framework of the preparations for the implementation of the Directive, the duties of the unit would be enlarged, so as to serve as the only factor in the Bank that provides independent opinion, and in particular, second opinions in respect of exposures, determination of credit ratings, classification of debts and allowances.

Concurrently, within the framework of the effort made to upgrade the control over credit at the Bank, a credit risk management department has been established at the Corporate Division, which is responsible for the credit policy and methodology at the Bank, in cooperation with the Risk Management Group and for the formation of work procedures that would ensure the implementation thereof. Among other thing, this department will serve as a first control circle over the operations of the Corporate Division and will also coordinate matters of compliance, operational risks and business continuity.

CREDIT RISK MITIGATION

For details regarding qualitative disclosure regarding credit risk mitigation, see 2012 Annual Report (pp. 139-141).
Quantitative disclosure in respect of this matter is presented in an Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B", item 4).

ADDITIONAL DISCLOSURES

QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK

Segmentation of credit risk exposure according to main credit exposure types – gross credit risk exposure

	September 30, 2013	Average in 2013(1)	September 30, 2012	Average in 2012(1)	December 31, 2012	Average in 2012(1)
	in NIS millions					
Credit	146,870	149,898	156,489	154,751	150,718	153,930
Bonds	38,401	37,664	36,439	34,629	35,874	34,878
Others(2)	8,571	7,997	7,738	7,593	7,450	7,567
Guarantees and other liabilities on account of clients(3)	57,262	58,884	60,011	60,091	59,891	60,050
Transactions in derivative financial instruments(4)	2,048	1,805	1,741	1,760	1,567	1,721
Total	**253,152**	**256,248**	**262,418**	**258,824**	**255,500**	**258,146**

Footnotes:
(1) The average is computed on a quarterly basis.
(2) Primarily: cash, shares, fixed assets.
(3) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).
(4) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

Additional quantitative disclosure is presented in an Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B", items 1-3).

GENERAL DISCLOSURE REGARDING EXPOSURE RELATED TO CREDIT RISK OF A COUNTERPARTY

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction. The main source for the Group's exposure to counterparty credit risk is over the counter (OTC) derivative transactions. For further details see 2012 Annual Report (pp. 141-142).
Quantitative disclosure in respect of this matter is presented in an Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B", item 5).

ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Bank’s activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see 2012 Annual Report (p. 143).
Note 8 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. The Annex to the Report of the Board of Directors, forming an integral part thereof (Part C, Item 1), contains further details of the data presented in the said Part B of the Note.

SECURITIZATION EXPOSURE

IDB New York invests in several types of securitized securities (including secured bonds of the CLO type and in marketable mortgage backed securities (CMBS)). For additional details, see 2012 Annual Report (p. 143). For the purpose of averaging the risk of securitization exposure, IDB New York makes use of ratings published by the international rating agencies Moody's, Fitch and S&P. For further details, see Note 2 to the condensed financial statements and "Investment in asset backed securities" under "Developments of assets and liabilities" above. Quantitative disclosure in respect of this matter is presented in an Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B", item 6).

CREDIT EXPOSURE TO FOREIGN FINANCIAL INSTITUTIONS

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities. As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure in respect of foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure in respect of investment in asset backed securities and in respect of potential off-balance sheet exposure.

Developments in world markets. The data indicates a slow improvement in the Eurozone economy, following a moderate recovery in exports and in retail sales. The economy of the Eurozone grew in the third quarter at a quarterly rate of 0.1%, compared to a growth of 0.3% in the second quarter. Concurrently, the political tension calmed down in October, following increased uncertainty in Portugal and in Italy in the course of the third quarter. The S&P rating agency lowered the credit rating of France to AA following the lack of progress in implementing structural reforms.

The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks in accordance with the risk profile of each customer and the approved credit facilities.

For details regarding the manner of managing credit risk applying to foreign financial institutions, see 2012 Annual Report (pp. 143-145).

Credit exposure to foreign financial institutions. The Bank's exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 72% of the exposure as of September 30, 2013, is to financial institutions rated "A-" rating or higher.

The states in respect of which the Bank has exposure as stated above as of September 30, 2013, include, inter-alia, the United States, Great Britain, Germany and Switzerland. No losses in respect of impairment of securities have been included in respect of the exposure to financial institutions in the reported period.

Following are details of present credit exposure to foreign financial institutions[(1)], on a consolidated basis:

	Balance sheet credit risk[(2)(4)(5)]	Present off balance sheet credit risk[(3)(4)]	Present credit exposure[(4)]
	In NIS millions		
	As at September 30, 2013		
Present credit exposure to foreign financial institutions[(6)]			
External credit rating[(7)]			
AAA to AA-	2,382	300	2,682
A+ to A-	4,281	189	4,470
BBB+ to BBB-	2,101	6	2,107
BB+ to B-	414	8	422
Not rated[(8)]	186	100	286
Total present credit exposure to foreign financial institutions	**9,364**	**603**	**9,967**
Of which credit exposure to foreign financial institutions:			
In the USA	2,808	50	2,858
Balance of problematic bonds	31	-	31
	As at December 31, 2012		
Present credit exposure to foreign financial institutions[(6)]			
External credit rating[(7)]			
AAA to AA-	2,116	373	2,489
A+ to A-	4,411	270	4,681
BBB+ to BBB-	1,267	7	1,274
BB+ to B-	506	6	512
Not rated[(8)]	206	54	260
Total present credit exposure to foreign financial institutions	**8,506**	**710**	**9,216**
Of which credit exposure to foreign financial institutions:			
In the USA	2,725	57	2,782
Balance of problematic bonds	60	-	60

Notes:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under resale agreements and other assets in respect of derivative instruments.

(3) Mainly guarantees, including guarantees securing third party indebtedness.

(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.

(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 8 to the condensed financial statements.

(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 2 to the condensed financial statements).

(7) According to Moody's rating, and in its abesnce, the Fitch rating or S&P.

(8) Most of the off-balance sheet credit risk which has no rating is in respect of guarantees by private Swiss banks and Swiss banks owned by banks in Western Europe that are rated A1 and above.

In addition to the exposure presented in the above table, as of September 30, 2013 and December 31, 2012 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions in indebtedness of a single borrower and of a group of borrowers", namely, variable percentage of the outstanding balance of a future transaction) in the amount of NIS 239 million and NIS 251 million respectively.

CREDIT RISK IN HOUSING LOANS

General. The activity of granting housing loans by the Group, is mostly done by the Bank and by Mercantile Discount Bank (hereinafter named together as "the Group").

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demands and the negative real term interest.

For details regarding measures taken by the Group, in order to tighten the control over credit in this area, see 2012 Annual Report (p. 147).

Quantitative data. The volume of the Group's housing loan portfolio as of September 30, 2013, amounts to NIS 20,391 million (December 31, 2012: NIS 20,092 million). The volume of housing loans granted by the Group in the first nine months of 2013 amounts to NIS 2,623 million, of which NIS 489 million in respect of recycled loans (in the corresponding period last year, NIS 2,117 million and NIS 212 million, respectively).

Following are data regarding certain risk characteristics of the Group's housing loans portfolio as of September 30, 2013:

	%
Rate of housing loans financing over 75% of the value of the Property	10.0
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	17.2
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[1]	65.1

Footnote:

(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

ADDITIONAL DISCLOSURE REGARDING CREDIT RISK IN RESPECT OF SIGNIFICANT EXPOSURE TO BORROWER GROUPS

Until March 31, 2013, the Discount Group had one group of borrowers the indebtedness of which is approx. 15% of the Bank's equity. The indebtedness of the said group decreased in the second and third quarter of 2013 by NIS 510 million, and accordingly it is no longer presented as part of the above stated additional disclosure.

The Bank maintains a continuous monitoring process over the large borrowers groups, performs periodic reviews assessing the risk attributed to each group, and as regards certain of the groups, even performs an examination of the stress tests and their effect on the repayment ability. The Bank complies with all regulatory restrictions relating to credit concentration aspects.

Starting with the 2012 annual report, the Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. The Bank studies the question as to whether classification of such investment is required also for the disclosure requirements regarding material exposure to groups of borrowers. This, in view of the essence of the said agencies and the special characteristics of the securities in which the Bank is invested, as stated. For details regarding the said investments of the Bank, see below Schedule "D" to the Management Review.

CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

The definition of leveraged finance. Until the 2012 annual report, the Bank had defined leveraged finance as credit granted for financing transactions involving the acquisition of means of control, as defined in Proper Conduct of Banking Business Directive No. 323, where the financing ratio exceeded the norm. The financing of acquisitions of means of control of corporations is typified by high amounts or by high financing ratios, where the repayment of the credit is based mostly upon the acquired corporation, sometimes even with no recourse to the borrower.

In view of the guidelines and clarifications of the Supervisor of Banks, the Bank has extended the definition so that leveraged finance is defined as credit granted for the acquisition of means of control of corporations and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations.

Credit risk in respect of leveraged finance. The Bank has set limitations on the scope of exposure to leveraged finance in relation to total credit granted by the Bank and in relation to the total equity of the Bank, whichever is lower. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors (instead of twice a year as was the practice until now), this, in order to monitor the risks inherent in such financing. For additional details regarding credit risks in respect of leveraged finance, see 2012 Annual Report (pp. 148-149). For additional details in respect of this matter, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "C", item 2).

MANAGEMENT OF MARKET RISKS

Market risk is the risk of impairment of the Bank's equity and profitability stemming from changes in financial markets which have an effect on the Group's assets or liabilities: interest rates, foreign exchange rates, inflation, prices of securities, product prices, the fluctuations in these parameters and in other economic indices.
For general details, see 2012 Annual Report (pp. 149-151).
Proper Conduct of Banking Business Directive No. 333 in the matter of "interest risk management". The Directive was published on June 3, 2013, which is designed to regulate the requirements and anticipation of the Supervisor of Banks of banking corporations with respect to interest risk management. The Directive corresponds with the recommendations of the Basel Committee in the matter. The Bank and its subsidiaries are studying the requirements included in the Directive and the preparations required to attain them. A preliminary review of the matter did not disclose any material gaps. (The provisions of the instruction will be effective as from July 1, 2014, and thereafter).

QUANTITATIVE DISCLOSURE

(1) BASE RISK EXPOSURE

The exposure to base risk is reflected in the loss which may incur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and liabilities, including the effect of forward transactions and the effect of options embedded in the base exposure.
For details regarding base risk exposure, see 2012 Annual Report (pp. 151-152).

Following is the distribution of the Bank's capital between the various linkage segments, compared with the restrictions (the data is presented in relation to capital):

	Third quarter 2013					2012			
	Range of exposure								
Segment	Limitation	Period end	from	to	average	Year end	from	to	average
CPI linked	50%-(25%)	14%	14%	24%	20%	26%	18%	28%	22%
Foreign currency	15%-40%	27%	26%	28%	27%	28%	27%	29%	28%

Exposure limitations were reduced in the third quarter of 2013.
Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the Bank's equity as of September 30, 2013.

	The Bank's capital sensitivity to changes in exchange rates			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	178	90	(87)	(175)
EUR	(1)	(1)	9	21
Other Foreign Currencies	(3)	(1)	(2)	(6)

(2) INTEREST RISK EXPOSURE

A. General

Interest risk is the risk of impairment of the Bank's capital and earnings as a result of changes in market interest rates. The risk derives from the exposure to future changes in interest rates and their possible effect on the present value of assets and liabilities including certain economic amendments. For further details, see 2012 Annual Report (pp. 152-157).

The data presented in item "B" hereunder, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the computation of Schedule "B" to the Management Review, hereunder.

The data presented in item "C" hereunder is used in the current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the Bank's economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

B. Sensitivity analysis to the effect of changes in interest rate based on the fair value of financial instruments

Fair value of financial instruments. For details regarding the fair value of financial instruments, see 2012 Annual Report (pp. 153-155). For details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 21 to the financial statements as of December 31, 2012 (pp. 472-474).

Following are certain updates as of September 30, 2013:

- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 48 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 3 million (compared to NIS 50 million and NIS 3 million, respectively, as of December 31, 2012);
- Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, reduced the fair value of the mortgages, particularly in the CPI linked segment, by NIS 114 million (compared to NIS 80 million as at December 31, 2012);
- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.68 years on September 30, 2013, compared to 3.31 years, taking into consideration the forecast for early redemptions (compared to 4.04 years and 3.70 years, respectively, as of December 31, 2012);
- Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 19 million (compared to an increase of NIS 2 million at December 31, 2012);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.47 years on September 30, 2013, compared to 3.27 years, taking into consideration the forecast for early redemption (compared to 3.84 years and 3.79 years, respectively, as of December 31, 2012).

Hybrid financial instruments. For details regarding hybrid financial instruments, see the 2012 Annual Report (p. 153). As of September 30, 2013, the effect of treatment of the option and of the host instrument as two separate instruments was not material.

Following are details regarding fair value of the Bank and its subsidiaries' financial instruments, excluding non-monetary items (before the effect of hypothetical changes in interest rate):

	Israeli currency		Foreign currency[2]			
	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions					
	September 30, 2013					
Financial assets[1]	108,469	25,887	46,292	5,111	4,276	190,035
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	91,552	3,368	55,876	18,290	12,554	181,640
Financial liabilities[1]	(97,968)	(21,537)	(51,057)	(8,454)	(4,436)	(183,452)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(99,612)	(6,709)	(48,936)	(14,977)	(12,374)	(182,608)
Net fair value of financial instruments	**2,441**	**1,009**	**2,175**	**(30)**	**20**	**5,615**
	December 31, 2012					
Financial assets[1]	106,722	25,530	49,238	5,782	3,794	191,066
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	81,574	3,163	49,019	12,774	7,876	154,406
Financial liabilities[1]	(96,090)	(22,050)	(54,136)	(8,410)	(4,169)	(184,855)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(91,059)	(4,689)	(41,757)	(10,299)	(7,576)	(155,380)
Net fair value of financial instruments	**1,147**	**1,954**	**2,364**	**(153)**	**(75)**	**5,237**

Following are details regarding the effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its subsidiaries, excluding non-monetary items:

	Net fair value of financial instruments, after the effect of changes in interest rate[4]							Change in fair value	
	Israeli currency		Foreign currency[2]						
Change in interest rate	Non-linked	CPI linked	US dollar	Euro	Other	Offsetting effects	Total	Total	Total
	in NIS millions								in %
	September 30, 2013								
Immediate parallel increase of 1%	2,157	973	1,598	(22)	20	(2)	4,724	(891)	(16%)
Immediate parallel increase of 0.1%	2,413	1,007	2,125	(31)	21	-	5,535	(80)	(1%)
Immediate parallel decrease of 1%	2,776	1,057	2,534	(35)	25	(2)	6,355	740	13%
	December 31, 2012								
Immediate parallel increase of 1%	805	1,930	2,034	(134)	(74)	(4)	4,557	(680)	(13%)
Immediate parallel increase of 0.1%	1,093	1,948	2,357	(151)	(76)	-	5,171	(66)	(1%)
Immediate parallel decrease of 1%	1,479	1,976	2,337	(162)	(77)	(4)	5,549	312	6%

(1) Not including balances of balance sheet derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Including Israeli currency linked to foreign currency.

(3) Amounts receivable (payable) in respect of derivative financial instruments, discounted at interest rates used to compute the fair value presented in Note 9 to the condensed financial statements.

(4) The net fair value of financial instruments presented in each linkage segment, is the net fair value in the segment, under the assumption that the change noted in all interest rates applying to the segment has in fact occurred. The total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) under the assumption that the change noted in all interest rates applying to all segments has in fact occurred.

C. Data used for the management of interest rate risk

The principal methods and assumptions used in the computation of the accounting fair value are detailed in Note 21 to the 2012 Annual Report (pp. 472-474).

Following are details of the effect of hypothetical changes in interest rates of 100 basis points on the Group's economic value:

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			September 30, 2013		
An increase of 100BP in interest rates	(135)	(39)	(200)	3	(371)
A decrease of 100BP in interest rates	153	44	8	(6)	199
			December 31, 2012		
An increase of 100BP in interest rates	(155)	17	77	15	(46)
A decrease of 100BP in interest rates	173	(23)	(371)	(9)	(230)

The limitations determined by the Board for interest risk exposure in the various linkage segments are expressed in terms of maximum damage to economic capital resulting from concurrent movements in the yield curve of 1% in each segment.
The limitation set on group exposure amounts to 7.5% of the equity. This, in addition to the limits determined by the Bank and the banking subsidiaries on this risk assessor. In the third quarter of 2013, the Bank and the Group complied with the determined exposure limits.
In addition to the scenario of a parallel shift in the interest graphs, the effect of non-parallel changes in the various interest graphs is also being examined. No deviation was recorded in the third quarter of 2013 from these limitations.

D. The characteristics of interest rate risk in the banking book

For details regarding the risks inherent in the banking book, see the 2012 Annual Report (p. 156).

Following is the effect of a hypothetical change of 100 basis points in the interest rate applying to the banking book:

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			September 30, 2013		
An increase of 100BP in interest rates	(120)	(35)	(196)	2	(349)
A decrease of 100BP in interest rates	137	40	4	-	181
			December 31, 2012		
An increase of 100BP in interest rates	(141)	25	37	14	(65)
A decrease of 100BP in interest rates	162	(31)	(330)	(8)	(207)

(3) THE VALUE AT RISK (VaR)

For details regarding the VaR model and its limitations, see the 2012 Annual Report (pp. 157-158).
The Board of Directors determined a limitation according to which the VaR of the Group (at a parametric method, for a range of ten days and at a confidence level of 99%) should not exceed 4% of the equity.

Following are data regarding the assessment of Discount Group's VaR amount:

	September 30, 2013	December 31, 2012
	in NIS millions	
Estimate of VaR amount (in NIS millions, Group)	307	195

The weight of the VaR in relation to equity attributed to the Bank's shareholders as of September 30, 2013 is 2.5%, compared with 1.6% at the end of 2012. The change in the Group's exposure stems from a change in the timing of the cash flows from financial instruments, due to an increase in the volatility of the main risk factors.

Back Testing. The VaR model, as a statistical model, requires an examination of the quality of the forecasts it provides. It is excepted to examine of the reliability of its forecasts, through post factum measurement (Back Testing). This test computes the actual change in the Bank's economic value. The validity of the model is tested according to quantitative deviation of the loss amount from the VaR estimate. Weekly observations made during the first nine months of 2013, revealed two cases of deviation from the VaR assessment at the Bank's level, in an amount of NIS 1 million. The tests that have been implemented to date confirm the model's validity.

(4) LOSS ANALYSIS IN STRESS SCENARIOS (STRESS TESTS)

The limitations on exposure of the Group in terms of erosion in value under stress tests are based on macro-economic evaluations as regards the probability of one or another stress test.

In the third quarter of 2013 no deviations from these limitations were recorded. For further details, see the 2012 Annual Report (pp. 158-159).

(5) THE STANDARD APPROACH TO THE ALLOCATION OF CAPITAL TO MARKET RISKS

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standard approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. For further details, see 2012 Annual Report (p. 159).

Following are details of capital allocation to market risks according to the standard approach:

	Capital allocation as of	
	September 30, 2013	December 31, 2012
	In NIS millions	
The Bank:		
Interest rate risk*	146	130
Foreign exchange rate risk	22	29
Share risk	1	-
Option risk	8	20
Total for the Banking Group	**177**	**179**
Allocation in risk asset terms	2,210	2,238

* Including the specific risk in the amount of NIS 2.9 million and NIS 2.4 million in the Third Quarter of 2013 and 2012, respectively.

(6) OPTION RISKS

Option risks relate to a possible loss stemming from changes in the parameters affecting the value of options, including standard deviation. The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards to the number of transactions and the overall volume and as regards the maximum loss in extreme scenarios and in moderate scenarios. The boards of directors of the principal banking subsidiaries have also set limitations on the activity in options. No deviations were recorded in the third quarter of 2013 from the limitations set by the Board of Directors.

(7) ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's Board of Directors and the Board of Directors of its main subsidiaries have determined the mode of operation in derivative financial instruments, maximum volume of activity and the range of financial instruments in which the Bank may engage (whether on behalf of its customers of or its own account).

The exposure created by this operation, both in respect to linkage base and to interest, is included in the framework of limitations set by the Board of Directors with respect to exposure to linkage base and interest. In addition, limitations have been set on the nominal volume and for instruments of certain types also a limitation on the number of open transactions at any given moment. The exposure is measured and controlled by the Middle Office on a current basis.

No deviations from the said limitations were recorded in the third quarter of 2013.

Following are data as to the volume of operation in derivative financial instruments (par value) of the Bank and its consolidated subsidiaries

	September 30, 2013	December 31, 2012
	in NIS millions	
Hedging derivatives	1,805	1,525
ALM derivatives	180,627	156,154
Other derivatives	17,015	17,857
Credit derivatives and SPOT foreign currency	2,311	1,549
Total	**201,758**	**177,085**

For further details regarding management and measurement of market risks, see 2012 Annual Report (pp. 149-162).

MANAGEMENT OF THE LIQUIDITY RISK

A liquidity risk is the risk of the Bank finding it difficult to meet its liabilities due to unforeseen developments, and being forced to raise funds in a way that would cause it a material loss. As this involves an uncertainty situation, in which the liquidity risk always exists, the Bank has determined the limitation of maximum exposure to liquidity risk.

No deviations from the limitations set by the Board were recorded at the Bank in the third quarter of 2013.

Proper Conduct of Banking Business Directive No. 342 – "Liquidity risk management". The Bank and the Group have prepared for the elimination of gaps with respect to the update of Directive No. 342, which entered into effect on July 1, 2013. In this framework, the Bank has updated the Group policy document regarding liquidity risk management, including expansion of the plans of action in case of a crisis, the addition of current management tools and the update of parameters of the internal model as well as of scenarios.

For further details, see 2012 Annual Report (pp. 162-164).

OPERATIONAL RISKS

An operational risk is defined in the directives of the Bank of Israel as a loss risk resulting from faulty data processing systems, human error and the lack of proper checks and controls.

Operational risks survey. The risk survey was completed in June 2013. A business continuity risk survey has, among other things, been performed as part of the survey.

The risks identified by the survey are treated on a current basis within the framework of the mitigation plans managed by the

Bank's various units, with the risk management group monitoring the progress of the treatment in the plan.

Reporting to the Supervision Department Directive – Reporting in a state of emergency. On July 30, 2013, this Directive was published following Proper Conduct of Banking Business Directive No. 355. The Directive applies to banking corporations, to joint service companies and to credit card companies, with effect as from October 1, 2013. The Directive details the data and information as well as the frequency of reporting to the Supervisor of Banks once the Supervisor declares a state of emergency.

For additional details regarding Operational risks, see 2012 Annual Report (pp. 164-168).

PREPARATIONS BY THE BANK FOR CONTINUED BUSINESS OPERATIONS

Regulation and control. The Bank had received from the Supervisor of Banks an evaluation of its preparedness for the maintenance of a framework for business continuity management, and is acting for the implementation of the recommendations included therein.

The Supervisor of Banks provided the Bank with relative scenarios (a state of war, earthquake, epidemic) and the Bank is preparing to carry out the required adjustments for implementing such scenarios.

Principal issues in the third quarter:

- Approval of the business continuity management policy document;
- Completion of standardized shielding for thirty core branches;
- Completion of two transportable branches based on shielded containers;
- A designated alternative site for the Finance Division;
- Formation of the concept of "divisional qualification index" for the maintenance of business continuity;
- Appointment of divisional business continuity officers at all Bank divisions.

ENVIRONMENTAL RISKS

Within the framework of the Bank's credit policy for 2013, in the matter of environmental risks, the Bank has defined an evaluation process with respect to the level of environmental risk and of the quality of risk management regarding business customers upon the granting of credit and upon performing the periodic evaluation of customer quality, with special reference to customers having a high environmental risk potential. The monitoring of the credit risk exposed to significant environmental risks is performed on an ongoing basis during the year.

Training sessions have been performed by outside experts, as part of the process of absorption of environmental risk management for the business factors.

For additional details regarding environmental risks, see 2012 Annual Report (pp. 170-171).

COMPLIANCE RISKS

The compliance risk policy document was applied, mutatis mutandis, during the reported period, also to IDB New York.

For additional details regarding compliance risks, see 2012 Annual Report (pp. 172-174).

For details regarding IT risks, see 2012 Annual Report (pp. 168-170).

For details regarding legal risks and regulation risks, see 2012 Annual Report (p. 171).

EFFECT OF EXTERNAL FACTORS

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY AND AROUND THE WORLD IN THE FIRST NINE MONTHS OF 2013

DEVELOPMENTS IN THE GLOBAL ECONOMY

General. The global economy continued to expand in the first nine month of 2013. Notwithstanding, global growth continued to be typified by differences between the leading economies.

In the U.S., the rate of growth accelerated from 0.1% in the last quarter of 2012 to 2.8% in the third quarter of 2013. The said economic growth was coupled by the continued absorption of new workers and a decline in the rate of unemployment from 7.8% at the end of 2012 to 7.2% in September 2013. Concurrently, private consumption, industrial production and the real estate market continued to improve. A partial solution to the "fiscal cliff" was found at the beginning of the year and on the background of the continued recovery, in the second quarter the expectations that the Federal Bank would begin to reduce the quantitative expansion towards the end of the third quarter, increased. However, in summing-up the period, no changes have occurred in the expansionary monetary policy of the FED.

In the Eurozone, the contraction of the product, which had lasted for a year and a half, was halted in the second quarter of the year, and a positive growth was recorded also in the third quarter. The rates of growth were 1.2% and 0.4%, respectively. It should be noted that the reviewed period experienced a lull in the debt crisis of the Eurozone. Notwithstanding, a temporary irruption of the crisis occurred in the period March to May, on the background of the general elections in Italy and the bank crisis in Cyprus. The said lull alongside the continued expansionary monetary policy, supported the slow recovery of the Erozone economy. However, the rate of unemployment in the Eurozone continued to rise reaching a record level of 12.2% in September (11.9% at the end of 2012).

It should be mentioned in addition, that Moody's rating agency reduced at the beginning of the year the perfect credit rating of Great Britain to Aa1, on the background of the weakness in economic growth, which hinders the reduction in the public debt. The credit rating of additional European countries was also lowered in the reviewed period, in particular that of Italy and France.

The economies of the BRIC countries continued to expand (though at a more moderate rate than in the past), certain of which recording accelerated growth in the third quarter. In particular, the product of China grew in the third quarter by 7.8%, following a trend of moderation in growth in the first half of the year. On the other hand, Brazil recorded a slowdown.

The inflationary environment around the world continued to be moderate, however the rate of price changes trend was not uniform. While in the U.S. and in the Eurozone a moderate inflation was recorded, in Japan, following a long period of deflation, an increase in prices was recorded in the third quarter. Acceleration in the rate of price increases was also recorded in China.

The slow recovery alongside moderate inflation rate supported the continuation of an expansionary monetary policy in most economies around the world. In particular, in all the G10 countries the interest rate remained unchanged at a low level, or was even lowered (in the Eurozone and in Australia). The interest rate in the U.S. remained unchanged (at a level of 0.25%), and as stated, despite assessments, the FED had not started the reduction in the quantitative expansion, mostly due to concerns that the potency of economic recovery in the U.S. is still insufficient. It should be further noted that the central bank in Japan has adopted an expansionary monetary policy with a view of reducing the strength of the local currency and increase inflation. The monetary policies in the BRIC countries were not uniform. While in China and Russia the interest rate remained unchanged, India lowered the interest rate while Brazil increased the monetary interest rate.

Financial markets. Trading on world equities markets during the reviewed period was affected by the partial solution for the U.S. fiscal cliff, by macro-economic data of the leading economies, by developments in the Eurozone, by the policies of central banks around the world and especially in the U.S., and by the high liquidity in the markets. Furthermore, trading on equities markets in developing countries was affected by the diversion of foreign investments from these markets to markets of developed countries. As a result, the trend recorded on world equities markets was not uniform. While equities markets in developed countries recorded an upward trend, the trend recorded in markets of developing countries went in the opposite direction (excluding the third quarter).

Following are the changes in selected share indices recorded during the first nine months of the years 2012 and 2013:

	Change in the first nine months of	
Index	2013	2012
S&P 500	18.0%	15.0%
DAX	12.9%	22.3%
MSCI Emerging Markets	6.4%	9.4%

The trends mentioned above, and in particular, evaluations as to the reduction in the quantitative expansion in the U.S., supported the increase in returns on U.S. Government bonds for ten years, mainly in the second quarter of the year. It should be noted that in September the trend of increase in returns was reversed, this on the background of the delay in reduction of the expansion plan and the fiscal problems in the U.S..

Following are the returns on government bonds:

Return on bonds for 10 years	September 30, 2013	December 31, 2012
U.S.A.	2.61%	1.76%
Germany	1.78%	1.32%

The trading trend on the world currencies markets in the reviewed period was not uniform. While in the first half of the year, the U.S. dollar strengthened against most leading world currencies, it was weakened in the third quarter and in particular in September.

Following are the changes in the U.S. dollar against selected currencies:

	Change in the first nine months of	
Exchange rate	2013	2012
EUR	(2.5%)	0.8%
JPY	13.4%	1.4%
GBP	0.4%	(3.9%)

World commodity prices were affected by the moderate growth (in developing countries in particular), by high liquidity in the markets and by the reduction in risk aversion. This alongside the trends applying to the U.S. dollar. Moreover, in the third quarter of the year, commodity prices (price of oil in particular) were affected by geopolitical developments around the world. As a result thereof, prices of commodities recorded volatility.

Following are changes in selected commodities indexes:

	Change in the first nine months of	
	2013	2012
The commodities index - CRB	(3.2%)	1.3%
The oil price (BRENT)	(2.4%)	4.7%
The oil price (WTI)	11.4%	6.7%
Gold	(20.0%)	13.3%

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL

The product grew in the third quarter of 2013 at an annualized rate of 2.2%, compared to 3.4% in the first half of the year. The rate of growth in the third quarter was the lowest since the beginning of 2009, and reflected a steep regression in exports and a slowdown in the rate of expansion of public consumption (compared to the second quarter). Private consumption, on the other hand, continued to grow at a fast rate and accelerated growth was recorded in investments in fixed assets and in imports.
The rate of unemployment dropped from a level of 6.9% in the last quarter of 2012, to a level of 6.1% in the third quarter of 2013, with a growth of seventy-five thousand in the number of employed persons.

DEVELOPMENTS IN ECONOMIC SECTORS

A decline of 2% in industrial production was recorded in the first nine months of the year compared to the corresponding period in 2012. In particular, industrial production in the third quarter was lower by 9% compared with the third quarter of last year, and by 3% compared with the average in the first half of the year.
Turnover of the commercial sectors increased by 3% in the first nine months of the year, compared with the corresponding period last year. The growth covered both the wholesale and retail trade.

DEVELOPMENTS IN FOREIGN ACTIVITIES OF THE ISRAELI ECONOMY

A steep growth was recorded in the first nine months of the year in direct investments in Israel by foreign residents (through banks), compared with the corresponding period in 2012. Financial investments in the reviewed period were positive, compared to withdrawals in the corresponding period last year. It should be noted that all investments were recorded in the first half of the year and were focused on shares.
Direct investments abroad (through banks) by Israeli residents recorded a steep increase (compared with the corresponding period last year), and concurrently Israeli residents made financial investments at a substantial scope. Most of the investments focused on shares, of which approximately one half were made by institutional bodies.

	In the first nine months of		
Investments in Israel by foreign residents	2013	2012	Change
	US$ billion		
Total direct investments through banks	7.0	4.8	44.4%
Total financial investments in the Tel-Aviv Stock Exchange	(1.2)	(3.4)	
Of which: Government bonds and MAKAM	(2.5)	(4.1)	
Shares	1.30	0.65	99.4%

Investments abroad by Israeli residents	2013	2012	Change
	US$ billion		
Total direct investments through banks	0.4	0.08	
Total financial investments (excluding banks)	7.8	3.9	96.3%

DEVELOPMENTS IN INFLATION AND FOREIGN EXCHANGE RATES

During the first nine months of the year, the Shekel strengthened against all leading world currencies, in particular against the U.S. dollar and the Euro by 5.3% and 3%, respectively. The exchange rate of the Shekel was mainly affected by foreign currency trading trends around the world, by interest rate differences between Israel and the developed countries, by the natural gas production from the Tamar Field, by non-financial investments in significant volumes, and by the surplus on current account. All

these supported the strengthening of the Israeli currency. In addition, the exchange rate of the Shekel was affected in the third quarter by the geopolitical developments in the region. With the aim of moderating the strengthening of the Shekel, the Bank of Israel intervened on several occasions in foreign currency trading, and even announced that it will purchase U.S. dollars in significant amounts. The reduction in the interest rate was another measure adopted by the Bank of Israel in its effort to weaken the Shekel. Notwithstanding, the measures taken by the Bank of Israel to weaken the Shekel had only a temporary effect.
The inflation environment in the reviewed period continued to be moderate, when in seven out of the nine months, the annual inflation rate was below the mean of the targeted inflation rate. In particular the annual inflation rate in September was 1.3%.

FISCAL AND MONETARY POLICY

Fiscal policy. Revenues, in real terms and net of legislation amendments, collected by the Tax Authority in the first nine months of the year, increased by 2.4% compared with the corresponding period in 2012. Government expenditure recorded an increase of 5.1% as compared with the corresponding period last year and compared to the planned annual increase of 8.8%. Moreover, State revenues from taxes were higher than planned as a result of nonrecurring revenues following the acquisition of local companies by foreign investors. The accumulated deficit in the first nine months of the year amounted to NIS 14.1 billion, compared to a deficit of NIS 20.2 billion in the corresponding period in 2012. It should be noted that in the middle of August 2013, Moody's credit rating agency ratified the rating in foreign currency of Israel at the level of A1.
Monetary policy. The Bank of Israel continued its expansionary monetary policy during the reviewed period, which included three reductions in the interest rate amounting in total to 0.75% (all of which were made in the first half of the year). As a result, the interest rate in September was 1.25%. The dominant factors supporting the lowering of the interest rate were the strengthening of the Shekel exchange rate as well as evaluations for moderation in economic growth rate.

CAPITAL MARKET

Most share indices in Israel recorded a steep increase during the third quarter (and in particular in September). This, following the increase in indices during the first half of the year (most of which in the first quarter of the year).

Following are the changes recorded in selected share indices during the first nine months of 2012 and 2013:

	Change in the first nine months of	
Index	2013	2012
General share index	9.6%	7.1%
TA 25	6.7%	11.8%
TA 100	8.9%	10.0%
TA banks	6.7%	17.3%
Blutech 50	6.3%	20.1%
Real-estate 15	19.8%	6.5%

On the background of the said developments, the value of the equities market rose during the first nine months of the year by 8%. An increase of 5.1% was recorded in the third quarter of the year. Consequently, at the end of September 2013, the value of the equities and convertibles market amounted to NIS 652.3 billion. The daily trading turnover in equities and convertibles during the reviewed period amounted on an average to NIS 1.13 billion (an increase of 7.5% compared to the corresponding period last year).
The trade in Government bonds in Israel was mostly affected by the trends of return on U.S. government bonds, serving as a benchmark for the local market, and by the lowering of the interest rate. This, alongside a low inflationary environment, uncertainty regarding the budget for the years 2013-2014, and the geopolitical developments (in the third quarter). In total for the period, the general bond index rose by 3.9%.

Trading in corporate bonds was to a large extent decreed by the trading trend in Government bonds alongside the increase in demand for riskier assets, on the background of the low returns on Government bonds. It should be noted that the return differential between corporate bonds and Government bonds recorded a decrease during the period.

	Change in the first nine months of	
Index	2013	2012
General bonds	3.9%	6.9%
General Government bonds	2.1%	6.1%
Shekel Government bonds	2.7%	5.3%
Linked Government bonds	1.4%	7.2%
General Corporate bonds	7.2%	8.3%
Linked Corporate bonds	7.5%	8.6%
Shekel Tel-Bond	5.1%	2.4%

The raising of funds in the first nine months of 2013, through corporate bonds, amounted to NIS 27.5 billion, a decrease of 9.7% compared to the corresponding period last year. Of this amount, bond issues to institutional bodies amounted to NIS 1.7 billion, compared to NIS 4.3 billion in the corresponding period in 2012.

Average daily trading turnover amounted to NIS 4.46 billion, an increase of 9% compared to the corresponding period last year. An increase of 12% was also recorded in the daily trading turnover in short term loans (MAKAM), amounting on an average to NIS 631 million. It should be noted that trading turnover in bonds and MAKAM in the third quarter of the year were lower by 23% and 30%, respectively, compared with the average monthly turnover in the first half of the year.

THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of financial assets portfolio held by the public increased during the first nine months of 2013 by 4.3%, amounting at the end of September to NIS 2.84 trillion. Developments in then asset portfolio during the reviewed period reflected an increase in all types of assets, about one half of the increase deriving from the rise in the value of shares (in Israel and abroad).

Following is the distribution of the asset portfolio held by the public:

	As of September 30, 2013	As of December 31, 2012
Shares	23.4%	21.7%
Non-linked assets	33.8%	35.1%
CPI linked assets	32.0%	32.5%
Foreign currency assets	10.8%	10.7%

PRINCIPAL ECONOMIC DEVELOPMENTS IN OCTOBER AND NOVEMBER 2013[2]

The economic activity indicators published in the reviewed period continued to point at the continued moderate recovery of the leading economies in the world. The International Monetary Fund has reduced the growth forecasts for the global economy in 2014 to 3.6%, compared to a previous forecast in July of 3.8%. In addition, the Monetary Fund has reduced the forecast for the volume of global trade, following a weakness in export and imports of the developing countries.

The United States continued to stand at the center of economic events in the world, on the background of the uncertainty concerning the subject of the budget and the debt ceiling of the country and the date on which the contraction of the

2 All data relate to the period from October 1, 2013 and until November 22, 2013.

quantitative expansion will begin. The data published in the U.S. mostly exceeded expectations and indicated the continued recovery, in particular in the employment market. It should be noted that in the first half of October, on the background of disputes in the administration regarding the said fiscal subjects, a part of the U.S. Government services were shutdown for a period of two weeks (at the end of which a comprise was reached).

Indicators of economic activity in the Eurozone were mostly weak and pointed to the continued very slow recovery. In China, on the other hand, indicators pointed to certain acceleration in the recovery of the local economy.

The inflation environment in the Eurozone and the U.S. continued to be moderate and supported the expansionary monetary policy of these economies. Furthermore, on the background of the high unemployment rate, alongside the continued inflationary moderation in the Eurozone, the central bank unexpectedly lowered the interest rate for November by 0.25% to a level of 0.25%. In the U.S., the uncertainty regarding the date on which the contraction of the quantitative expansion would begin, remained unchanged.

The inflationary trend in the BRIC countries was not uniform. Certain acceleration in China, India and Russia, compared to a slowdown in Brazil. The monetary policies were also not uniform. While Brazil and India raised the interest rate, in China and Russia the interest rate remained unchanged.

Most of the reviewed period was characterized by an upward trend in the U.S. and European equities markets. This mainly on the background of the compromise regarding fiscal matters in the U.S., expectations that the FED would defer the date of contracting the quantitative expansion, positive macro-economic data in the U.S. and China, and the lowering of interest rates in the Eurozone. In summation of the period, the S&P 500 index and the German DAX index increased by 7%. The MSCI equities index in the developing markets recorded volatility, while in total for the period it increased by 2.2%.

Returns on U.S. government bonds for ten years were mostly affected by assessments as to the date on which the contraction of the quantitative expansion would begin. As a result, returns recorded high volatility, and in total for the period returns increased by 17 basis points.

The US dollar weakened during the reported period as against the Euro and the British Pound at a rate of up to 0.3%. The commodities price index, the CRB, dropped during the reviewed period by 4%. In particular, the price of WTI oil fell by 7.3% and the price of gold fell by 6.6%.

The indicators regarding economic activity in Israel during the reviewed period were generally weak, though they indicated a certain improvement in exports. The integrated index of the Bank of Israel rose in October by 0.2%, a similar pace to that of the previous months.

The Consumer Price Index rose in October by 0.3%, and the annual inflation amounted to 1.8%. Residential units prices, which are not included in the CPI, continued to rise. The interest rate for October was unexpectedly lowered by 0.25% to a level of 1%, mostly due to the strengthening of the Shekel (in the period prior to the decision on the rate of interest). The interest rate for November remained unchanged. The accumulated deficit in the last twelve months (ended in October) was 3.3%.

The reviewed period was characterized by relative stability of the Shekel as against the U.S. dollar, when in total for the period, the Israeli currency weakened by 0.6% (a similar weakness rate was recorded also against the Euro).

Prices of equities on the Tel Aviv Stock Exchange recorded an upward trend, when in total for the period, the TA 25 index and the TA 100 index rose by 6%. Long-term non-linked government bonds recorded a decline in returns of 15 basis points. It should be mentioned that during the period a moderate decline in returns was recorded in the Tel-Bond 60 index, however the margin as against the linked government bonds slightly increased.

LEGISLATION AND SUPERVISION

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

BANKING LAWS

PRINCIPLES FOR CONTROL OF REGULARIZED ENTITIES DOCUMENT

The Commissioner of the Capital Market and the Supervisor of Banks published on July 11, 2013, a document on the subject of guiding principles for criteria and general rules applying to those wishing to obtain a permit to control and hold means of control of regularized entities. These principles are designed to create uniformity in the conditions required for the purpose of obtaining a permit for the control and holding of regularized entities operating in the capital and financial markets. It has been determined that the established policy rules will apply to whoever seeks a new permit, as well as to holders of an existing control permit, mutatis mutandis, whenever changes are made to the permit held by them.

PROHIBITION OF MONEY LAUNDERING AND PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

On February 17, 2013, the Supervisor of Banks published a "Questions and Answers file regarding the implementation of prohibition of money laundering order and Proper Conduct of Banking Business Directive No. 411". The Q&A file combines most of the circular letters of the Supervisor of Banks issued in the course of the years, including clarifications regarding the Banking Order, in which it even introduces certain changes.

In addition, in the framework of the Q&A file the criterion regarding the reporting of "irregular operations" was changed, and now a reporting duty exists with respect to any operation which, in the light of information in the hands of the bank, reasonable grounds for concern exist, or concern arose, that such operation is connected with forbidden actions under the Money Laundering Prohibition Act or under the Finance of Terror Prohibition Act.

Prevention of Infiltration Act (Felonies and judgment) (Provisional instruction), 2013. The Provisional Instruction prohibits an infiltrator from transmitting funds out of Israel for as long as he resides in Israel and permits him to take property out of it only when leaving the country, and that only at the value determined in the Provisional Instruction. The Provisional Instruction determines as a felony the transition of funds against the law by an infiltrator or on his behalf. The Provisional Instruction came into effect on September 13, 2013, and will remain in effect until January 18, 2015.

Prevention of Money Laundering (Provisional instruction), 2013. The Provisional Instruction establishes as a predicate offence, the felony of transmitting funds out of Israel by or on behalf of an infiltrator, as described above. The Provisional Instruction came into effect upon entering into effect of the provisional instruction relating to the amendment for the prevention of infiltration on September 13, 2013, and shall remain in effect for one year since that date.

The Struggle against the Nuclear Program of Iran Regulations (Issue of notices and work procedures), 2013. The Constitution, Law and Justice Committee of the Knesset approved the said Regulations on October 15, 2013. The Regulations deal with the procedure, mechanism and declaration of a foreign entity as a factor assisting the nuclear program of Iran (hereinafter: "a foreign assisting entity") and of a foreign entity which is a corporation maintaining significant business relations with Iran (hereinafter: "a corporation maintaining significant business relations with Iran").

The Regulations have not yet been published in the Official Gazette. Upon formal publication, the relevant sections of the Struggle against the Nuclear Program of Iran Act, 2012, (the application of which had been deferred until the publication of the Regulations) would enter into effect, including the chapter dealing with a foreign assisting entity and with a corporation maintaining significant business relations with Iran, etc.

Amendment to the Prohibition of Money laundering Order (Obligation for identification, reporting and maintenance of records by banking corporations for the prevention of money laundering and the finance of terror). An amendment of the said Order was approved on October 29, 2013. The Amendment refers to a series of amendments, the principal of which are instructions regarding identification of the parties to bank transfers abroad, additional and more extensive instructions regarding the maintenance of documents and the data base established under the Prohibition of Money Laundering Act, as well as changes in the reporting criteria regarding unusual transactions in activities, which according to the information in the hands of the bank, raise suspicion that it might be connected to forbidden operations under the Prohibition of Money Laundering Act or under the Prohibition of the Finance of terror Act.

The amendment of the Order has not yet been published in the Official Gazette.

ANTITRUST

EXEMPTION FROM A BINDING ARRANGEMENT IN RESPECT OF THE HOLDING AND JOINT ACTIVITY WITHIN THE FRAMEWORK OF ABC AND BCC

On May 1, 2013, the Commissioner extended the period of exemption for ABS for additional three months. Within the framework of the exemption, the Commissioner granted an extension until July 21, 2013 for the sale of the teller machines owned by ABS. The other terms of the exemption remained unchanged (for details regarding entering an engagement for sale, see the "financial management segment" in the item "Activity of the Group according to principal segments of operations").

On July 30, 2013, the Supervisor provided a draft of the exemption terms (which includes reference to the said postponement of the sale date), and announced that in order to allow perusal of the draft, he does not intend to initiate enforcement steps until August 25, 2013, subject to the terms of the said terminated exemption being met. On August 26, 2013, ABS was granted an exemption for a period of three years, in which was determined, among other things that ABS has to sign until October 20, 2013, an agreement for the sale of all the ATM machines owned by it (for details regarding the sale of operations, as stated, see "Developments in the segment" under "Financial management segment"). Furthermore, as from October 1, 2015, ABS has to make available for use the technological interface providing information gathering and confirmation services and interface services, which would be developed and integrated into its systems and into a credit software to be developed by it in accordance with all its obligations and according to determined principles, and everything with a view of removal of the entry barriers to the clearing and issuing markets.

The Commissioner extended on March 21, 2013, the exemption granted to the Central Banking Clearing for a period of three years.

For additional details, see the 2012 Annual Report (p. 184).

TAXATION

INCREASING OF TAX COLLECTION AND ENFORCEMENT INTENSIFICATION BILL (PROVISIONAL INSTRUCTION), 2013

On June 19, 2013, the Government published in the Official Gazette a proposed Intensification of Tax Collection and Intensification of Enforcement Bill (Means of enforcing the payment of taxes and Deterrence of Money Laundering) (Legislation amendments and Provisional Instruction), 2013, which includes amendments of most of the tax laws, the aim of which is dealing with undeclared ("black") capital and increase enforcement. On July 31, 2013, the Bill passed its first reading and was referred to the Constitution, Law and Justice Committee for preparation for its second and third readings.

Within this framework, it is proposed also to amend the Prohibition of Money Laundering Act, so as to add to the list of predicate offences also severe tax violations under various legislations, such as: the Income Tax Ordinance, Land Tax Act, etc. These violations are characterized by a special basic mental intent of evading the payment of tax.
Furthermore, the Amendment grants customs officers investigative and search power regarding everything related to such violations and permits them to receive information from the data base of the Money Laundering Prohibition Authority.

For details regarding certain updates in taxation, see Note 18 to the condensed financial statements.

U.S. LEGISLATION

DODD FRANK

The U.S. Federal Bank issued a notice in August 2013, according to which certain financial institutions will be obliged to make a yearly payment to the Federal Reserve in respect of expenses incurred in the supervision of operations of financial institutions included in the notice (both local and foreign). According to the criteria stated in the notice, Discount Bank, as a bank holding company with total (consolidated) assets of over US$50 billion, will be subject to the notice and to the payment under it.

VARIOUS LEGISLATION MATTERS

PROPOSED BILL INTENDED TO PROMOTE COMPETITION AND REDUCE CONCENTRATION, 2012

On June 18, 2013, the Finance Committee of the Knesset approved for second and third reading the chapter in the Concentration Act dealing with the separation of nonfinancial assets from financial assets. The Bill states limitations on the holding by banks of means of control in nonfinancial corporations and in significant financial institutes, as defined in the Bill. Furthermore, limitations are imposed on the holding of means of control in banking corporations by whoever controls a significant nonfinancial corporation. According to the Bill, the transition period for implementing the limitation on the holdings is six years. The Bill is expected to have an effect on central factors in the market, including banks and control holders therein (see also the 2012 Annual report, p. 191).

REGULATIONS REGARDING EQUAL RIGHTS FOR THE HANDICAPPED (ADJUSTMENT OF ACCESSIBILITY TO SERVICES)

The Regulations were published in the Official Gazette on April 25, 2013, and came into effect on October 25, 2013. The Bank is preparing to meet the requirements of the Regulations.

PUBLIC COMMITTEES

For details regarding the report of the team for examining the increase in competition in the banking industry, including actions taken by the Supervisor of Banks for the implementation of the team's recommendations, see Note 16 to the condensed financial statements.

THE DIRECTIVES OF THE SUPERVISOR OF BANKS

DIRECTIVE REGARDING DELIVERY OF NOTICES BY ELECTRONIC MEANS

On August 4, 2013, the Bank of Israel published an amendment to Proper Conduct of Banking Business Directive No. 420 regarding "Electronic Transfer of Information". The amendment mainly expands the types of notices which a banking corporation may send to its customers by electronic means, instead of by post, provided that certain conditions are met. The Bank is examining the options of acting pursuant to the amendment.

ADVANCING THE DATES FOR SUBMISSION OF ANNUAL AND QUARTERLY REPORTS

The Supervisor of Banks issued on October 3, 2013, an amendment of the Public Reporting Directives according to which the annual report of a banking corporation shall be published within sixty days from balance sheet date (instead of the present ninety days with respect to a banking corporation standing at the head of a banking group) and a quarterly report within forty-five days from balance sheet date (instead of the present sixty days). This in order to match the publication dates to those accepted in the U.S. and in order to improve the availability of the information to users of financial statements.
The advancement of the dates will be applied gradually, so that for example: the annual report for 2013 shall be published until March 20, 2014, and the quarterly reports in 2014 shall be published within fifty-five days from balance sheet date.

DRAFT REGARDING "CUSTOMER BENEFITS"

On July 28, 2013, the Supervisor of Banks issued a draft Amendment of Proper Conduct of Banking Business Directives Nos. 403 and 470 with respect to "Customer benefits". The draft Amendment states that banking corporations would not be permitted to grant their customers non-banking benefits (benefits that do not involve interest or commissions) with respect to the opening or management of a current account at the bank or with respect to obtaining other banking services. Banking corporations and credit card companies shall be permitted to grant customers non-banking benefits upon application for the issue of a credit card, ownership and use of thereof, on condition that this does not entail terms binding the customer. A banking corporation and a credit card company would not be permitted to grant non-banking benefits in respect of the actual use of revolving credit services. Furthermore, a banking corporation and a credit card company, upon receiving an application for the issue of a revolving credit card, would be required to offer the customer a credit card that does not include this service, though it includes identical benefits, to the extent existing.
If the amendment to the instructions remains in the format proposed in the draft, this might have a material effect on the benefits offered as part of the banking corporations' marketing deals and within the framework of the marketing of a credit card offering revolving credit.

DRAFT OUTLINE FOR A STRUCTURAL CHANGE IN THE INDEPENDENT AUDIT OF FINANCIAL INSTITUTIONS

A draft outline was published on May 29, 2013, as a joint document of the Supervisor of Banks and the Commissioner of the Capital Market, Insurance and Savings.
The draft proposes to consider use of the following alternatives, either separately or jointly, with respect to dealing with the concentration of auditors of banks and insurance companies:
- Requirement of periodic rotation of independent accounting and audit firms;
- Limitation on the share of a single accounting and audit firm in the financial system;
- Limitation on joint audits by two accounting and audit firms;

- Imposing additional limitations on the provision of related services by the independent accounting and audit firm.

The draft is open to public comment until July 25, 2013.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation" and "Exposure to Risks and Risk Management" above.

For further details regarding "Legislation and Supervision", see the 2012 Annual Report (pp. 182-192).

ADDITIONAL ISSUES IN THE DESCRIPTION OF THE GROUP

MAIN INVESTEE COMPANIES

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 561 million in the first nine months of 2013, compared to NIS 447 million in the corresponding period last year, and an income of NIS 627 million in all of 2012.
Following are the major developments in the Bank's main investee companies.

DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. ("Bancorp") is a wholly owned subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York). IDB New York is the largest Israeli bank operating overseas. The data presented hereunder in this section have been taken from Bancorp's financial statements.
For details regarding the examination of a possibility for the sale of the Bank's holdings in Bancorp, in whole or in part, as part of studying various options for expansion of the capital base of the Bank, see "Capital resources" above.

	In US$ millions		
Balance sheet items	September 30, 2013	December 31, 2012	Change in %
Total assets	9,722	9,984	(2.6)
Total credit	4,457	4,119	8.2
Total deposits	7,440	7,468	(0.4)
Total equity	842	838	0.5
Ratio of capital to risk assets	14.8%	15.4%	
Income statement items for the first nine months of the year	**2013**	**2012**	
Net income attributed to the Bank's shareholders	29	36	(19.4)
Return on equity	4.7%	5.9%	

The results for the first nine months of 2013 reflect the continued erosion in the interest margin (NIM – Net Interest Margin) for eleven consecutive quarters. The decline in returns affected also the profits from securities operations. On the other hand, a consistent increase was recorded in the collection of commissions.

The contribution of the Bank's investment in Bancorp to the Bank's business results amounted to an income of NIS 104 million in the first nine months of 2013 (after deducting a provision for tax of NIS 9 million), compared with an income of NIS 118 million (after deducting a provision for tax of NIS 20 million) in the corresponding period last year.
For details regarding investments by IDB New York in mortgage backed securities, see "Development of assets and liabilities" above and Note 2 to the condensed financial statements hereunder.

MERCANTILE DISCOUNT BANK LTD.

Mercantile Discount Bank Ltd. ("Mercantile Discount") is a wholly-owned subsidiary of the Bank.

	In NIS millions		
Balance sheet items	September 30, 2013	December 31, 2012	Change in %
Total assets	27,370	26,534	3.2
Total credit to the public, net	17,492	16,629	5.2
Total deposits from the public	22,832	22,254	2.6
Total equity	1,876	1,889	(0.7)
Ratio of capital to risk assets	14.6%	15.0%	
Income statement items for the first nine months of the year	2013	2012	
Net income attributed to the Bank's shareholders	136	128	6.3
Return on equity	9.8%	9.8%	

The increase in income in the first nine months of 2013 was affected, inter alia, by an increase in the amount of NIS 75 million in non-interest financing income, stemming mainly from an increase in the amount of NIS 24 million in the gains on realization of bonds, from a decrease in the amount of NIS 19 million in the provision for impairment of certain securities, recorded in the corresponding period last year, from an income in the amount of NIS 8 million from a settlement with regard to the consideration from the realization of a certain investment and from an increase in the amount of NIS 37 million in the gains on fair value adjustments of derivative financial instruments. On the other hand, an increase in the amount of NIS 42 million was recorded in credit loss expenses, explained by high allowances recorded in the Reporting Period with respect to a small number of business customers whose repayment ability deteriorated, and from an increase in the amount of NIS 30 million in payroll expenses, stemming mainly from current salary increase and from an increase in the provision to salary bonuses.
Dividend. In April 2013, Mercantile Discount approved a dividend in the amount of NIS 80 million. The meeting of the board of directors of Mercantile Discount Bank, held on July 30, 2013, resolved to distribute an interim dividend in an amount of NIS 40 million.
Audit performed at Mercantile Discount in the matter of compliance with the "Prohibition of the financing of terror". For details, see the 2012 Annual report (p. 197). Following Mercantile Discount Bank's response to the findings of the report, a response which specifies, inter alia, actions taken to correct the deficiencies, on June 20, 2013 the Bank of Israel has notified Mercantile Discount Bank of his decision not to take additional steps with regard to this matter.
Change of CEO. On April 1, 2013, Mr. Uri Baruch commenced office as General Manager of Mercantile Discount Bank. Mr. Baruch has replaced Mr. Jacob Tennenbaum.

For details regarding a lawsuit filed against the Mercantile Discount Bank and a motion for approval of the said lawsuit as a class action suit, in the matter of commission regarding the handling of credit and collateral, see Note 7 to the condensed financial statements item 5.1.

For details as to the motion for a declarative ruling in the matter of charging the debtor's account with violation interest, see Note 19 C item 12.6 to the financial statements as of December 31, 2012 (p. 457) and Note 7 item 4.5 to the condensed financial statements.

For details regarding a lawsuit and a motion for approval of the lawsuit as a class action suit, in the matter of the format for granting loans guaranteed by the State, see Note 7, item 5.7, to the condensed financial statements.

ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of September 30, 2013, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

	In NIS millions		
Balance sheet items	September 30, 2013	December 31, 2012	Change in %
Total assets	9,200	9,149	0.6
Total equity	1,075	1,046	2.8
Ratio of capital to risk assets	16.8%	16.8%	
Income statement items for the first nine months of the year	2013	2012	
Total Income	836	838	(0.2)
Net income attributed to the Bank's shareholders	104	162	(35.8)
The contribution to the Bank's business results	72	113	(36.3)
Return on equity	13.0%	19.1%	

The business results of ICC for the reported period were mostly affected by the implementation of the changes in the joint issue agreement between ICC and the owner banks (see Note 15 to the condensed financial statements) and from an increase in operating expenses, which is mainly due to the reduction of provisions in the second quarter of 2012, with respect to different proceedings, including proceedings that have ended.

Dividend. On June 26, 2013, ICC's general meeting declared the distribution of dividend in the amount of NIS 50 million, which was paid on June 30, 2013. On September 12, 2013, ICC's general meeting declared the distribution of dividend in the amount of NIS 25 million, which was paid on September 29, 2013.

Audit at ICC regarding the implementation of the Prohibition of Money Laundering Law. For details, see 2012 Annual Report (p. 197). The Supervisor of Banks informed ICC on October 9, 2013, that the committee in charge of imposing monetary sanctions on banking corporation had decided that ICC and its then subsidiary ICC International Ltd. (the operations of which were merged into ICC in 2012) had violated the provisions of the Prevention of Money Laundering Order and the instructions of the Prevention of Money Laundering Regulations, mostly in the years 2007-2008. Due to these violations, the committee decided to impose on ICC a monetary sanction of NIS 6 million.

It should be noted that ICC has adopted effective measures to rectify the deficiencies and prevent their repetition as well as instituting a proper anti-money laundering regimen.

For details regarding lawsuits and motions for their approval as class action suits, filed against ICC with respect to the following matters: withdrawal of money from ATMs (with respect to which the Court has resolved that the claim and the petition will be stricken off as they relate to ICC), the charge of the issuer-commission (a claim that was stricken off for want of action), granting of credit by means of the "You" charge card, the marketing of gift cards and the charging of excess amounts in respect of refueling of vehicles, see Note 19 C to the financial statements as of December 31, 2012, items 13.4 (p. 460), 13.5 (p. 460) and 13.10 (p. 461), respectively. Also, note 7 to the condensed financial statements, items 4.8, 4.6, 4.12, 5.5 and 5.9, respectively.

For details regarding activity in the credit card field in Israel, see "Credit card operations" under "Further details as to activity in certain products" above, Note 33 to the financial statements as of December 31, 2012 (pp. 510-514) and Note 15 to the condensed financial statements.

For details regarding a police investigation and seizing of documents and computer material, see Note 33 C to the financial statements as of December 31, 2012 (p. 514).

FIRST INTERNATIONAL BANK OF ISRAEL LTD.

The First International Bank of Israel Ltd. ("FIBI") is an affiliated company of the Bank. As of September 30, 2013, the Bank held 26.45% of it's share capital and voting rights. For details regarding the agreement with FIBI Holdings Ltd., in the matter of the Bank's ownership of shares in FIBI, which among other things, limits the period in which Discount Bank shall have the right by which FIBI Holdings shall continue to support the appointment of one quarter of the directors of FIBI from among candidates recommended by Discount Bank and for details regarding the timeline determined by the Antitrust commissioner for the reduction in the interest held by Discount Bank in FIBI see Note 6 E (1) to the financial statements as of December 31, 2012 (pp. 404-406).

On June 26, 2013, FIBI's shares were moved to the TA-25 index.

	In NIS millions		
Income statement items for the first nine months of the year	2013	2012	Change in %
Net income attributed to the Bank's shareholders	429	445	(3.6)
The contribution to the Bank's business results[(1)]	159	31	412.9
Return on equity attributed to the shareholders	8.7%	10.0%	
	September 30, 2013	December 31, 2012	
Ratio of capital to risk assets	15.3%	14.9%	

Footnote:

(1) Including an amount of NIS 42 million, due to updating the provision for taxes on the Bank's share in profits of FIBI, following receipt of updated data.

Dividend. On June 24, 2013, FIBI distributed dividend in a total amount of NIS 200 million.

An opinion in the matter of the provision for impairment in value. For details regarding the opinion obtained by the Bank with respect to the impairment of its investment in shares of FIBI, see Note 14 to the condensed financial statements. The opinion is available for perusal, with the consent of the provider thereof, via the MAGNA site on the Israeli Securities Authority website and via the MAYA site on the Tel Aviv Stock Exchange Ltd. website.

For details regarding a lawsuit filed against FIBI and a motion for approval of the said lawsuit as a class action suit, in the matter of the charging of commission on withdrawal of cash through ATM machines, see Note 19C item 12.9 to the financial statements as of December 31, 2012 (p. 458).

For details regarding lawsuits and motions for their approval as class action suits, filed against FIBI with respect to the following matters: an argument regarding a binding agreement between the banks in respect of commission rates, the charge of an issuer commission, withdrawal of money from ATMs, the value date attributed to payments made by borrowers directly to the debt execution office, and operations in contradiction of a "transaction permit", the charging of a commission with respect to foreign currency conversion and transfer operations, see Note 19 C to the financial statements as of December 31, 2012, items 13.2 (pp. 458-459), 13.4 (p. 460), 13.5 (p. 460), 13.9 (p.461) and 14 (p. 461), and Note 7, items 5.2, 4.6, 4.8 and 5.3, to the condensed financial statements, respectively. For details in the matter of the ruling of the Antitrust Commissioner that binding arrangements have existed between the Banks, see Note 19 C item 15 to the financial statements as of December 31, 2012 (pp. 461-462) and Note 7 B to the condensed financial statements, item 6.

For details regarding lawsuits filed against FIBI and a motion for approval of the said lawsuits as class action suits, in the matter of the charging of commission on conversion and transfer of foreign currency, and in the matter of commission regarding the handling of credit and collateral, see Note 7 to the condensed financial statements items 5.8 and 5.10, respectively.

For details as to the motion for a declarative ruling in the matter of charging the debtor's account with violation interest, see Note 19 C item 12.6 to the financial statements as of December 31, 2012 (p. 457) and Note 7 item 4.5 to the condensed financial statements.

For details regarding a lawsuit and a motion for approval of the lawsuit as a class action suit, in the matter of the format for granting loans guaranteed by the State, see Note 7, item 5.7, to the condensed financial statements.

ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.

Israel Discount Capital Market and Investments Ltd. ("DCMI"), a wholly owned and controlled subsidiary of the Bank, is engaged in investment in companies, in private investment funds and venture capital funds, investment banking and in the underwriting and management of public offerings of securities (through a subsidiary).

	In NIS millions		
Balance sheet items	September 30, 2013	December 31, 2012	Change in %
Total assets	995.8	855.5	16.4
Total equity	213.1	121.6	75.2
Income statement items for the first nine months of the year	2013	2012	
Net income attributed to the Bank's shareholders	91.9	54.3	69.2
The contribution to the Bank's business results[1]	86.6	48.3	79.3

Footnote:
[1] Differences between net income and the contribution to the Bank's business results is derived from differences in the implementation of generally accepted accounting principles

The income in the first nine months of 2013 was affected mainly by different realizations – see "Non-Financial Companies Sub-Segment" above.

In the first nine months of 2013, DCMI participated, via its subsidiary, in 48 public offerings and 7 private placements amounting in total to NIS 10 billion and in 7 brokerage transactions. This, compared with 15 public offerings and 7 private placements amounting to NIS 6.9 billion and two brokerage transactions, in the corresponding period last year.

HUMAN RESOURCES

Preparations of the Bank for the implementation of Amendment 24 of the Wage Protection Act. Following the Bank's demand for a change in the manner of recording presence at work of Bank employees, as required by law, and the opposition of the Employees Representative Committee to such change, discussions are being held in matters in dispute with a view of reaching mutual agreements, which would become part of the collective labor agreement. Just recently, the employees' committee announced its intention to delay the matter due to the labor dispute, as detailed below.

Negotiations regarding wage agreements. The Employees Representative Committee has submitted its demands for wage differences in respect of the years 2011 and 2012, as well as for wage increases for the year 2013 and 2014. Following several discussions, it has been agreed by the Management and the employees' committee to postpone the discussions to October. Discussions have been renewed lately.

Labor dispute. The Union of Clerks, Administrative Public Service Employees ("the UCAPSE") informed the Bank on April 25, 2013, of a labor dispute at Discount Bank. The main issues of the dispute relates to employee salary in view of the opposition of the Management to agree to the demands of the Employees Committee, as detailed above. According to the notice, a strike had been fixed for May 10, 2013 and for any subsequent deferred date. An information meeting was held on May 9, 2013. In recent days, upon renewal of the negotiations in respect of salary and following the gaps revealed between the positions of the parties, the employees' committee has informed that sanctions are to be adopted in respect of the said labor dispute. As of the date of preparation of the report, certain of these sanctions have been virtually implemented at a number of centers, resulting in partial work and even total shutdown by employees.

REMUNERATION POLICY IN A BANKING CORPORATION

As detailed in the 2012 Annual Report (p. 215), the Bank has made preparations to implement the requirements that it is subject to as a result of Amendment No. 20 to the Companies Act. For further details, see "Board of Directors and Management" below.

A new instruction in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a new Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation. The issue of the Directive is in line with the growing trend of supervisory authorities around the world, following the global financial crisis, and which stems from the acknowledgement that the subject of remuneration is an integral part of proper corporate governance of financial institutions, and that it must be ensured that remuneration does not encourage acceptance of exceptional risks that might endanger stability of banks and the financial system as a whole.

The Directive is intended to fortify corporate governance and control and documentation mechanisms in relation to the remuneration policy and ensure that remuneration arrangements are consistent with risk management framework and the long-term goals of the banking corporation.

Special emphasis is given in the Directive to the variable component of the remuneration:

- The Remuneration Committee of the Board shall have to determine in advance the adequate ratio of the variable remuneration and the fixed remuneration in respect of different groups of employees;
- The maximum variable remuneration shall not exceed 100% of the fixed remuneration, excluding exceptional cases;
- It is required to defer the payment of at least 50% of the variable component of the remuneration in respect of key employees over a period of not less than three years;
- It is stated that the granting of variable remuneration, which is not performance based, should be avoided, other than in exceptional cases.

The Bank has to approve a remuneration policy, which complies with the provisions of the Directive, no later than June 30, 2014.

It has been further determined that the provisions of the Directive shall apply to an individual remuneration agreement, including an extension or change of an existing remuneration agreement, as well as to a remuneration agreement that has been approved since the date of publication of the draft Directive (June 3, 2013). As regards an agreement that had been approved prior to June 3, 2013, it has been determined that it should be adjusted to agree with the provisions of the Directive no later than December 31, 2016.

The provisions of the Directive shall not apply to rights of a key employee, as defined by the Directive, accumulated until date of publication of the Directive.

The Bank is preparing to implement the Directive.

CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2012) and according to instructions and guidelines of the Supervisor of Banks.

The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.

Implementation by management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, sometimes requires various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.

Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.

The Bank's Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its knowledge and professional judgment.

A summary review of evaluations and assessments made regarding "critical" matters is included in the 2012 Annual Report (pp. 228-238).

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

The credit risk. The adjustment of credit risk relating to assets and liabilities in respect of derivative instruments led, in the first nine months of 2013, to a loss of NIS 25 million, compared to a loss of NIS 34 million in 2012.

Following are details regarding the adjustments made to assets and liabilities in respect of derivative instruments, as stated above:

	September 30, 2013	December 31, 2012
	in NIS millions	
Assets in respect of derivative instruments	3,441	3,770
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(32)	(20)
Liabilities in respect of derivative instruments	4,394	4,722
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(16)	(29)

For additional details regarding the measurement of financial instruments according to their fair value, see the 2012 Annual Report (pp. 232-234).

EMPLOYEE RIGHTS

The capitalization rate used in actuarial computations. Within the framework of the actuarial computations (see the 2012 Annual Report pp. 235-236), use is made of a 4% discount rate, in accordance with a provisional instruction of the Supervisor of Banks with respect to "The discount rate for computing reserves covering employee rights". In the opinion of the actuary, the actuary noted as follows: "the computation assumes a discount rate of 4% per annum, in accordance with instructions of the Bank of Israel. These instructions remained in effect despite the decline in interest rates around the world and in Israel. A reduction in the discount rate would result in an increase of the reserves".

At the Bank's request, the actuary has assessed the theoretical effect of replacing the above mentioned discount rate by the rate of return on CPI-linked government bonds with a maturity period similar to the average maturity of the liability. According to the said assessment, the liability in respect of employee rights as of June 30, 2013, would have increased by an amount of NIS 840 million (pre-tax). The after-tax effect of the said theoretical change is assessed at NIS 540 million. It should be noted that the reduction in the estimated amounts, as stated, in comparison with the data published by the Bank in the financial statements as of December 31, 2012, (p. 236), stems from the increase in returns of CPI linked government bonds.

During the third quarter of 2013, no material change occurred in returns on CPI-linked Government bonds and in the estimate, as stated.

Possible change in accounting treatment. As mentioned in the 2012 Annual Report (p. 236), on March 12, 2013, the bank was informed that the Supervisor of Banks is examining a change in the accounting treatment of employee benefits. At this stage, it is not yet known which standardization would be adopted, if at all, and what would be the manner and date of its implementation. At present, the discount rate in use, in accordance with the Supervisor's directives, is 4%. This rate reflects the long term average interest rate on government bonds.

It should be noted that Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of five years.

RATING THE LIABILITIES OF THE BANK AND SOME OF ITS SUBSIDIARIES

Details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies are presented hereunder:

Rating given by	Subject of rating	Rating	Rating horizon	Date of rating/ ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA-	Stable	January 17, 2013 (4)
	Subordinate capital notes(1)	il A+	Stable	January 17, 2013 (4)
	Upper tier II capital (Series 1)	il A-	Stable	January 17, 2013 (4)
	Hybrid tier I capital (Series "A")	il BBB	Stable	January 17, 2013 (4)
Midroog	Long-term deposits	Aa2	Stable	October 18, 2012
	Short-term deposits	P-1	Stable	October 18, 2012
	Subordinate debt notes(1)(5)	Aa3	Stable	October 18, 2012
	Subordinate capital notes (tier I capital)	A-2	Stable	October 18, 2012
The international rating agency S&P	Issuer rating Short-term	A-3	Stable	January 15, 2013
	Issuer rating Long-term	BBB-	Stable	January 15, 2013
The international rating agency Moody's(3)	Long-term foreign currency deposits	A-3	Negative	June 12, 2013
	Bank Financial Strength Rating	D+ (BFSR)	Negative	June 12, 2013
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA-	Stable	January 15, 2013 (2)
	Subordinate debt notes	il A+	Stable	January 15, 2013
	Discount Bank Latin America			
The international rating agency S&P	Issuer rating (including deposits)	BB(6)	Stable	October 2, 2013

Footnotes:

(1) The rating also relates to subordinate debt notes (lower tier II capital) issued by Manpikim.

(2) Within the framework of the updating of the rating, Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

(3) Moody's announced on May 8, 2012, the lowering of the credit rating forecast for the banking industry in Israel.

(4) Within the framework of the announcement, according to which the Bank's issuer rating and the rating of the Bank's rated liabilities remained unchanged following the consummation of the merger with DMB.

(5) Including Series "A", issued at the time by Discount Mortgage Issues Ltd. (paper No. 1094853), transferred to Discount Manpikim Ltd. (paper No. 7480122), following the merger between them, consummated on November 11, 2012.

(6) According to the announcement of S&P, the lowering of the rating followed the announcement by the Bank as to the possible sale of its New York subsidiary, including its operations in Uruguay, as part of the plan for the Bank's capital management.

As part of the rating of the subordinate capital notes (Series A), which comprise hybrid tier I capital, Ma'alot and Midroog emphasized that this rating was based, inter-alia, on the decision of the Bank's Board of Directors regarding the subordinate capital notes, in accordance with which the Board adopted a capital adequacy policy according to which the Bank will maintain, at all times, an original tier I capital adequacy ratio (excluding hybrid tier I capital) of at least 6.5%. Midroog also noted that the determined ranking is based on the Bank's total capital adequacy ratio.

For comparison purposes, hereunder are the international rating data for the State of Israel:

Rating given by	Foreign currency - long-term	Rating horizon
The international rating agency Moody's	A-1	Stable
The international rating agency S&P	A+	Stable
The international rating agency Fitch	A	Stable

* The data are taken from the website of the Accountant General at the Ministry of Finance.

DIVIDENDS

For details as to limitations on the distribution of dividends, see Note 13 E to the financial statements as of December 31, 2012 (pp. 419-420). The Bank's Management believes that it would not be possible to distribute a dividend in 2013.
On November 20, 2013, the Bank's Board of Directors resolved to pay on December 30, 2013, an interim dividend of 6% to the holders of 40,000 6% cumulative preference shares of NIS 0.00504 par value each, and to recommend to the annual General Meeting of Shareholders, that will convene in 2014, to declare such dividend as final.
For further details see the 2012 Annual Report (p. 199).

LEGAL PROCEEDINGS

As for details regarding "Outstanding claims against the Bank" and "Debt collection procedures" see the Annual Report of 2012 (p. 239), Note 19 C to the financial statements as of December 31, 2012 (pp. 450-466) and Note 7 to the condensed financial statements.

ADDITIONAL LEGAL PROCEEDINGS TO WHICH THE BANK IS A PARTY

Legal proceedings regarding the Lehman Brothers Group. An agreement was signed on June 24, 2013, with Lehman Brothers International (Europe) (in administration), which brought to the conclusion of all legal proceedings and/or mutual claims that had existed between the Bank and any of the companies in the Lehman Group. Upon payment of the balance of the liquidation dividend, settlement of all accounts between the Bank and any of the companies in the Lehman Group will be completed.
In light of the above, the provision in the amount of approx. NIS 14.5 million has been cancelled. Furthermore, the Bank remains with Lehman Brothers bonds, the stated value of which at June 30, 2013, based on their market value, amounts to NIS 19.2 million. The aforesaid bonds were sold in July 2013, for an amount which exceeds somewhat their value in the Bank's books. For additional details, see 2012 Annual Report (p. 240).
Legal proceedings against IDB (Swiss) Bank. The Annual Report for 2012 (p. 240), described a claim filed against IDB (Swiss) Bank with the Geneva Labor Court. IDB (Swiss) Bank filed a defense brief as well as a counterclaim. The Claimant in the said claim filed with the Tel Aviv District Court on May 6, 2013, a claim by way of an originating summons against the Bank and against IDB (Swiss) Bank.
The matter of the claim is a motion for a declarative relief order, according to which the Court declares the validity of the compromise agreement, which as alleged by the Plaintiff had been reached with the Bank in October 2011, as part of mediation proceedings. The Plaintiff claims that the agreement binds the Bank and IDB (Swiss) to all intents and purposes.
Motion for approval of a class action by employees who had elected early retirement. A claim against the Bank and others was filed with the Regional Labor Court on March 24, 2013, together with a motion for approval of the claim as a class action suit against the Bank and Mercantile Discount Bank.
The Court is requested to define the group in whose name the motion for a class action suit was filed, as all permanent employees who had voluntarily elected early retirement.
The Claimant argues that there are four salary components (health insurance, reimbursement of medical expenses, taxable excess further education fund contributions and over the maximum provident fund contributions) that had been paid regularly as part of the monthly salary voucher during the period in which employer/employee relations existed. He further argues that the said components comprise under the law, components of the salary amount that serves as a basis for the computation of the severance pay amount payable, and accordingly should also be part of the salary amount serving as a basis for computing the remuneration paid upon voluntary early retirement.
The amount of the claim in respect of the whole group members is estimated by the Claimant at NIS 40 million.
On July 15, 2013, the Bank submitted its response to the motion for approval of the suit as a class action suit. Mercantile

Discount Bank filed on July 15, 2013, a motion for an in limine dismissal of the motion for approval of a class action. A preliminary hearing in this case took place on October 27, 2013. Following the hearing, the Claimant has submitted several motions to the Court, including a motion for amendment of the claim brief.

PROCEEDINGS REGARDING AUTHORITIES

1. For details regarding various proceedings conducted by the Antitrust Commissioner and the Antitrust Tribunal concerning the Groups activities in the credit card field, see Note 33 B 1 to the financial statements as of December 31, 2012 (pp. 511-512) and Note 15 to the condensed financial statements.
2. For details regarding the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which a binding arrangements had existed between the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and FIBI regarding the communication of information with respect to commissions, see Note 7 B item 6 to the condensed financial statements.
3. For details regarding the terms determined by the Supervisor of Banks and the Antitrust Commissioner in their approval granted to the agreement between the Bank and FIBI Holdings in the matter of the Bank's holdings in FIBI, see Note 6 E (1) to the financial statements as of December 31, 2012 (pp. 404-406).
4. For details regarding an audit by the Bank of Israel in the matter of "Implementation of the provisions of the Prohibition of Money Laundering Law" at ICC, including a monetary sanction imposed, see above in "Israel Credit Card Company Ltd." under "Main investee companies".
5. For details regarding the police investigation and the seizure of documents and computer material of ICC, see Note 33 C to the financial statements as of December 31, 2012 (p. 514).
6. For details regarding an audit performed at Mercantile Discount Bank regarding “Compliance with the Prohibition of Money Laundering and Terror Financing Law” and the announcement by the Bank of Israel that no further action would be taken in the matter, see above “Mercantile Discount Bank Ltd.” under “Main Investee Companies”.
7. For details regarding the agreement between the Government of Switzerland and the U.S. Department of Justice and its possible implications on IDB Swiss, see "Developments in the Segment" under "International Operations".

ISSUES REGARDING CORPORATE GOVERNANCE

INTERESTED PARTY TRANSACTIONS APPROVAL PROCEDURE

On March 17, 2013, the Board of Directors approved the interested party transactions approval procedure. The procedure is designed to regulate the manner of identifying, approving and reporting transactions between controlling shareholders and/or officers of the Bank and the Bank and subsidiary companies in the Group, which require special approval under the Companies Act. Implementation of the procedure is based on criteria that had been approved by the Audit Committee with respect to exceptional transactions with interested parties, for the purpose of having them approved according to the provisions of the law applying to them.

THE INTERNAL AUDIT IN THE GROUP

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work programs and the considerations at its basis were included in the 2012 Annual Report (pp. 245-249).

Updates. During the third quarter of 2013 the following periodic reports were submitted and discussed:

- The semiannual report on the activities of the internal audit in the first half of 2013 was submitted on August 4, 2013 and discussed in the Audit Committee on August 19, 2013;
- The quarterly report on the activities of the internal audit in the subsidiaries in the third quarter of 2013 was submitted on October 23, 2013, and it is presently brought for discussion by the Audit Committee;
- The quarterly report on the activities of the internal audit in the third quarter of 2013 in the Bank was submitted on October 29, 2013, and it is presently brought for discussion by the Audit Committee.

INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management philosophy, according to which activities beneficial to the community form part of a business, social and cultural obligation. The social work and involvement in the community was carried out by the Bank through "Lema'an" Project, donations and sponsorships.

"LEMA'AN" PROJECT - DISCOUNT EMPLOYEES FOR THE COMMUNITY

The varied activity continued in the third quarter of 2013, while focusing on voluntary activities within the framework of various associations active among a wide range of populations in risk and distress situations. The following projects conducted in the third quarter of 2013 deserve special mention:

Volunteer work. The staff of the direct channels department of the IT and Planning Division enlarged the scope of their voluntary work with children and youth of Ethiopian origin to include work with parents of these children. The staff of the department conduct courses providing basic computer knowledge designed for the Ethiopian community, as part of the "Place in the Heart" Project in Jaffa. Concurrently, the staff is preparing to repair and provide internet computers for the participants of the course.

"Our Children's Horizon" Project. During the summer months (July-August) the Bank employed youth with eye defects, who are active at the "Our Children's Horizon" Association. For the seventh year running, the Bank is an active member in the training provided for such youth as preparation for work at the Bank. The participants came to the Discount College, where they were given instruction on the subject of work qualification and skills.

Bazaar for products made by persons having special needs – Jewish New Year. This project was conducted in cooperation with Associations employing persons having special needs: "Enosh" Rishon LeTzion (the Israeli Mental Health Association), "Kishorit" (adults with special needs), "Beit Miriam" (Ilan) and "Reuth" Medical Center. As part of the project a one day bazaar was held at one of the Bank's Head Office premises in Tel-Aviv selling gift items made by persons having special needs. Income from these sales served to finance the continued operations of these Associations.

ARTS

Guided tours. Guided tours of the Bank's art collection, are conducted on Friday mornings at the Discount Tower. Some 5 guided tours of the Bank's art collection were conducted in the third quarter, in which some 130 visitors participated.

"Meetings between feelings and color". An exhibition of Bat-Yam artists, which was opened on September 30, 2013. The opening event included a homage to the Bulgarian artist Sultana Soroujon. Present at the opening event were the Ambassador of Bulgaria in Israel and his guests, senior officers of the Bank and senior officers of the City Council of Bat-Yam.

SPONSORSHIPS

Sponsorships were granted during the third quarter of 2013 to activities in various fields. Especially noted are the following sponsorships:

SOCIAL, EDUCATIONAL AND CULTURAL ISSUES SPONSORSHIPS

The Haifa University Friends and Alumni Association. Sponsorship of an event for notables of the Israeli economy held by the Association, in which representatives of the Bank took part.

Baka Community Center. Sponsorship for a multi-cultural festival held during the week of Succot (Jewish Holiday). The Center serves six communities of varied cultural, social and economic background, and the festival is intended to represent this multi-culture.

Libi Found. Sponsorship for a special Jewish New Year supplement of the Libi Found.

Larger than Life Association. Sponsorship for a special broadcast day, within the framework of Reshet Broadcasting, held on August 15, with the aim of support and fundraising in aid of children of the Association and their families.

Krembo Wings. Sponsorship for an event of the Association held on July 17, at the Ra'anana Amphitheatre, with the participation of leading performers, in aid of children of the Association having special needs.

Yad Lashiryon Association. Sponsorship for an event of the Association commemorating the fortieth anniversary of the Yom Kippur War and documenting the battles of the 14th Armored Brigade. The event was held at the Latrun Yad Lashiryon on August 29.

"HERZELILINBLUM" - BANKING AND TEL AVIV NOSTALGIA MUSEUM

Tours. About 11,000 visitors toured the Museum during the third quarter, within the framework of some 220 tours and seminars conducted in the Museum for children, students servicemen and adults.

Some 130 workshops for children and youth were held during the summer months of July and August. This year, in addition to the "Money workshop for young economists" tour, designed for ages 6-12, was added the "Money road" tour designed for teenagers of 13-17. In addition, within the framework of "The third one in the family'" was included story-time for the little ones aged 4-6. The workshops were held in September during the High Holidays vacation period.

Teachers and Supervisors Conferences – Ministry of Education. Five conferences of five hours each were held during the quarter. Fifty teachers and supervisors of the Ministry of Education participated in each conference.

Various events at the Museum. During the third quarter, events for commercial companies and for the Bank's customers were held at the Museum as well as organized tours for groups from business entities and work places. Among other things,

"Adorned – Pioneers and Dreamers" Exhibition. For the first time, the exhibition presents a group of women, each of whom excelled in her achievements and contribution to the Israeli society, in various fields of activity and contents: art, literature, science, law, theatre, politics, cinema, fashion, etc. The power and uniqueness of the exhibition lies in the integration between what is recognized and known in the world of each of these ladies and what is personal, humane and less known. The exhibition presents many connecting lines between the women presented.

Several events were held within the framework of the exhibition in the third quarter, including:

- Event dedicated to the poet Leah Goldberg – Among the speakers were Prof. Hamutal Bar-Yosef, Adv. Yair Landau and Mr. Gideon Tikotzky. About 100 persons participated in this event;
- An academic seminar with the participation of senior lecturers of gender subjects in the presence of about 100 participants;
- Hosting the family and friends of the late Naomi Shemer, on occasion of her birthday.

TRANSACTIONS WITH CONTROLLING SHAREHOLDERS AND INTERESTED PARTIES

Approving transactions. On April 25, 2013, the special meeting of shareholders of the Bank approved the renewal of officers liability insurance policy as detailed in the Immediate Report dated April 25, 2013, (Ref. No. 2013-01-045352), the information provided therein in respect of this matter is included herein by way of reference. See also Note 17 to the condensed financial statements.

An update of the indemnification commitment in advance for Directors and Officers. The Annual Meeting of the Bank's Shareholders, held on September 9, 2013, decided on the amendment of the commitment in advance for indemnification of Directors and other Officers of the Bank, including Directors or other Officers as would officiate from time to time (see also Note 19C (6) (n) and (o) of the 2012 Annual Report, pp. 453-454), in order to add indemnification with respect to administrative enforcement proceedings, the proposal follows the Improved Enforcement Procedures of the Securities Authority Act (Legislation amendments), 2011, and the Antitrust Act (Amendment No. 13), 2012, everything as stated in the Immediate Report of July 30, 2013 (Ref. No. 2013-01-103950) and in the Immediate Report of September 9, 2013 (Ref. No. 2013-01-140475), the information provided therein in respect of this matter is included herein by way of reference.

Proposed amendment of the terms of office and employment of the Chairman of the Board of Directors in the matter of the grossing up tax wise of motorcar expenses. The Agenda of the Annual Meeting of the Bank's Shareholders, summoned for September 9, 2013, includes a proposed resolution, the approval of which is subject to the approval of the "remuneration policy", according to which the Bank would bear the expense of the grossed up taxes in respect of the cost of use and maintenance of the motorcar put at the disposal of the Chairman of the Board, everything as stated in the Immediate Report of July 30, 2013 (Ref. No. 2013-01-103950), the information provided therein in respect of this matter is included herein by way of reference. In view of the removal of the remuneration policy item from the Agenda of the Meeting (see below "Remuneration policy for Officers of the Bank" under "Board of Directors and Management"), this item has also been removed from the Agenda of the Annual Meeting of the Bank's Shareholders.

Yardsticks for approval of transactions between the Bank and Officers of the Bank. On July 22, 2013, the Audit Committee, under its power according to Section 117(1a) of the Companies Act, 1999, approved yardsticks concerning transactions that are not exceptional between the Bank and its Officers, or between the Bank and another person, in which an Officer of the Bank has a personal interest.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Bank's President & CEO and its Chief Accounting Officer have evaluated in conjunction with the Bank's Management, the efficiency of the controls and procedures relating to disclosure at the Bank as of the end of the reporting period. Based on this evaluation, the President & CEO and Chief Accounting Officer have reached the conclusion that as of the end this period, the controls and procedures relating to disclosure at the Bank operate efficiently in order to record, process, summarize and report the information that the Bank is required to disclose in its quarterly report, in accordance with the directives of the Supervisor of Banks in the matter of reporting to the public and at such date indicated therein.

CHANGES IN INTERNAL CONTROL

During the quarter ended September 30, 2013, no change occurred in the internal control over the financial reporting at the Bank, which had a material effect or which is reasonably expected to have a material effect on financial reporting.

MISCALENIOUS

AMENDMENT OF THE BANK'S ARTICLES

The Annual Meeting of the Bank's Shareholders, held on September 9, 2013, decided on the amendment of the Bank's articles (item 18 and the addition of item 75A) in the matter of bearer shares (proposal for the cancellation of the instruction regarding bearer shares) as well as an indemnification commitment in advance, everything as stated in the Immediate Report of July 30, 2013 (Ref. No. 2013-01-103950) and in the Immediate Report of September 9, 2013 (Ref. No. 2013-01-140475), the information provided therein in respect of this matter is included herein by way of reference. Among other things, it is stated in the Bank's articles that the maximum amount of indemnifications granted or to be granted by the Bank to all officers of the Bank and officers of its subsidiary companies on a cumulative basis, shall not exceed fifteen per cent (15%) of the Bank's shareholders' equity, as reflected in its most recent financial statements published prior to the actual date of indemnification (in this respect, "shareholders' equity" is the regulatory capital as defined in Proper Conduct of Banking Business Directive No. 202, issued by the Supervisor of Banks).

HOLDINGS IN THE BANK BY INTERESTED PARTIES

Psagot Investment House Ltd. As stated in the immediate report dated May 6, 2013 (Ref. No. 2013-01-055129) Psagot Investment House Ltd. ("Psagot") became an interested party in the Bank due to its holdings in the Bank, which at date of the immediate report amounted to 6.58% in equity and voting. According to the information given to the Bank, on October 31, 2013 the said holdings amounted to 5.9% of the equity and voting.

As related to the Bank, in response to the approach by Psagot to the Supervisor of Banks, proximate to the consummation of the transactions as a result of which it became an interested party, the Governor of the Bank of Israel had instructed Psagot to reduce its holdings in the Bank to the rate permitted by the Banking Act (Licensing), 1981, (5%) until November 30, 2013.

Until the dates mentioned above, Psagot is required not to make any acquisitions of control means in the Bank so long as the rate of its holdings in the Bank is not below the rate permitted by law (5%), and not to make use of the voting rights attaching to the means of control in excess of 5% of the means of control in the Bank.

The information included in the immediate reports mentioned in this Item is included herewith by way of reference.

REVIEW BY THE INDEPENDENT AUDITORS

In their review report of the interim consolidated condensed unaudited financial statements for the nine and three months periods ended on September 30, 2013, the independent auditors drew attention to Note 7 B items 4.2 and 5 regarding requests to approve certain actions and with regard to other claims as a class action suits against the Bank and investee companies and item 6 in respect of the Antitrust Commissioner's resolution.

BOARD OF DIRECTORS AND MANAGEMENT

REMUNERATION POLICY FOR OFFICERS OF THE BANK

Following Amendment No. 20 of the Companies Act (see the 2012 Annual Report, pp. 187-188), the Bank's Board of Directors has approved a remuneration policy for Officers of the Bank, which requires approval of the general meeting of shareholders. The remuneration Committee and the Board have resolved that the existing terms of office and employment of the Chairman of the Board and of the President and CEO (see Note 13D (1) and Note 22F and G to the 2012 Annual Report, pp.415-416 and pp.485-488) shall continue to apply until the end of the respective period. The remuneration Committee and the Board of Directors also decided that the existing award plan in respect of Officers (who are not the Chairman of the Board or the President & CEO; see Note 16J of the 2012 Annual Report, pp.436-439) shall apply in respect of the payment of the annual award for 2013 and the long-term award for the years 2011 to 2013, subject to certain determined principles, and everything as stated in the Immediate Report of July 30, 2013 (Ref. No. 2013-01-103950) and in a supplementary Immediate Report dated August 26, 2013 (ref No. 2013-01-126678), the information and clarifications provided therein in respect of this matter are included herein by way of reference. It should be noted that there is no material difference between the proposed remuneration policy and the remuneration terms for Officers in their present format, as described in the Note.

The Agenda of the Annual Meeting of the Bank's Shareholders, convened on September 9, 2013, includes a proposed resolution for approval of the remuneration policy for Officers of the Bank, in accordance with item 267A of the Companies Act, this after the matter had been discussed by the remuneration Committee of the Board and by the full Board of Directors (the said offer has been removed from the Agenda, as detailed hereunder).

The Supervisor of Banks issued on August 27, 2013, an amended draft of Proper Conduct of Banking Business Directive in the matter of "Remuneration policy". The Directive was published by the Supervisor of Banks on November 19, 2013.

As detailed in an immediate report dated September 3, 2013 (Ref. No. 2013-01-136737), the information included therein is presented herein by way of reference, the Bank received on September 2, 2013, a letter from the Supervisor of Banks whereby it is instructed to defer the discussion in the matter of remuneration policy and hold it only after completion of the final version of the Proper Conduct of Banking Business Directive in the matter of "Remuneration policy". Appended to the letter of the Supervisor of Banks was the clarification of the Israeli Securities Authority of August 28, 2013, as well as a letter of the Deputy Attorney General to the Government, Adv. Avi Licht, dated August 29, 2013, in the matter of the implications of Amendment No. 20 on the deferral of the voting by banks on their remuneration policies. According to which Mr. Licht's letter, the deferral for a short period of time of the discussions regarding approval of the remuneration policy, in order to modify the proposed policies to the requirements raised by the Supervisor of Banks, seems to be the proper manner that the banks should adopt.

REAPPOINTMENT OF DIRECTORS

The Annual Meeting of the Bank's Shareholders, held on September 9, 2013, passed a resolution regarding the appointment of Directors, as detailed below:

- Reappointment of members of the Bank's Board of Directors, who are not directors in the status of external director pursuant to the law and/or pursuant to Proper Conduct of Banking Business Directives – Dr. Yossi Bachar (Chairman of the Board), Mr. Eli Gonen, Mr. Jorge Zafran, Mr. Joseph Ciechanover, Mr. Richard Roberts and Ms. Aliza Rothbard;
- Appointment for an additional period of office, beginning on November 10, 2013, of Messers. Ilan Cohen and Mr. Yali Sheffi, acting as external directors, in accordance with Proper Conduct of Banking Business Directives.

All details are as stated in an immediate report issued by the Bank on July 30, 2013, (Ref. No. 2013-01-103950) and in the Immediate Report of September 9, 2013 (Ref. No. 2013-01-140475). The information included in the said immediate reports in this matter, is presented here by way of reference.

RATIFICATION OF APPOINTMENT OF AN EXTERNAL DIRECTOR OF THE BANK

A special meeting of the Bank's shareholders held on April 25, 2013, resolved to ratify the appointment of Mr. Ilan Biran as external Director of the Bank until the termination of his tenure of office on October 29, 2014, described in an immediate report issued by the Bank on April 25, 2013 (Ref. No. 2013-01- 045352). The matter was submitted to the meeting of shareholders in view of the doubt arising as to whether the position of Mr. Biran as Chairman of the Board of Rafael Advanced Defense Systems Ltd. (hereinafter: "Rafael") simultaneously with the existence of business relations between the Bank and Rafael creates affinity relations between Mr. Biran and the Bank within the meaning of the term in Item 240(b) of the Companies Act. The

circumstances of the matter, including the conclusions of the Audit Committee in the question of the negligible connections between the Bank and Rafael, were detailed in immediate reports issued by the Bank on February 7, 2013 and on March 20, 2013 (Ref, Nos. 2013-01-033465 and 2013-01-011791, respectively).
The detailed information provided in all immediate reports mentioned above in this item, is included herewith by way of reference.

TERMINATION OF OFFICE OF THE BANK'S PRESIDENT & CEO

As specified in an immediate report dated August 21, 2013 (Reference No. 2013-01-123042), on August 21, 2013, the Bank's President & CEO, Mr. Reuven Spiegel, notified the Chairman of the Board of the Directors, Dr. Yossi Bachar, of his decision to terminate his own service in the Bank for personal and family reasons. The expected date of said termination of service is March 31, 2014, unless a different date will be decided with Mr. Spiegel.
The Chairman of the Board of the Directors and the Board of the Directors thank Mr. Spiegel for his contribution in his service as President & CEO and in previous positions, throughout his years of service in the Bank.
On October 17, 2013, the Bank's Board of Directors decided to adopt the recommendation of the ad-hoc committee of the Board regarding appointment of a President & CEO, and appoint Ms. Lilach Asher-Topilsky President & CEO of the Bank.
The decision of appointment, as stated, is subject to the approval of the Supervisor of Banks. No date has yet been fixed for the beginning of her tenure of office.

CHANGES IN MANAGEMENT

As detailed in the immediate report dated July 18, 2013 (Ref. No. 2013-01-095571), the Bank and Mr. Gilad Sokolov, Executive Vice President, Head of the Strategy, Marketing and Service Division, have reached an agreement regarding the termination of office of Mr. Sokolov. The date of termination of office is set to January 1, 2014.
The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Sokolov for his work and contribution during his term of office at the Bank.
The detailed information provided in all immediate reports mentioned above in this item, is included herewith by way of reference.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In the first nine months of 2013, the Board of Directors held 20 meetings. In addition, 75 meetings of committees of the Board of Directors were held.

November 27, 2013	Dr. Yossi Bachar Chairman of the Board of Directors	Reuven Spiegel President & Chief Executive Officer

ANNEX TO THE REPORT OF THE BOARD OF DIRECTORS

PART "A": ADDITIONAL DETAILS - SECURITIES PORTFOLIO

1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors:

	September 30, 2013			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	717	743	35	9
Financial services(1)	12,854	12,645	100	309
Total non government bonds	**13,571**	**13,388**	**135**	**318**
Government bonds				
U.S. government	539	529	-	10
Israel Government	21,239	21,612	375	2
Other Governments	445	444	4	5
Total government bonds	**22,223**	**22,585**	**379**	**17**
Total bond in the available-for-sale portfolio	**35,794**	**35,973**	**514**	**335**

*There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 340 million.

(1) Following are details regarding bonds in the financial services sector in the available-for-sale portfolio:

	September 30, 2013			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	3,751	3,639	42	154
Insurance and provident funds	92	96	4	-
Ginnie Mae*	2,372	2,331	5	46
Freddie Mac*	1,466	1,451	11	26
Fannie Mae*	4,014	3,961	29	82
Other**	1,159	1,167	9	1
Total financial services	**12,854**	**12,645**	**100**	**309**

*The said bonds were presented as of December 31, 2012 under "Public and community services" sector and in the reported period were reclassified to the "Financial services" sector.

** In the said group there is no investment in bonds which exceeds NIS 53 million.

1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS (CONTINUED)

(2) Following are details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio:

	September 30, 2013			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America[3]	1,666	1,538	14	142
Western Europe[4]	1,274	1,275	12	11
Israel	502	513	11	-
Australia	185	188	4	1
Other	124	125	1	-
Total banks and banking holding companies	**3,751**	**3,639**	**42**	**154**

(3) Following are details by rating of investment in bonds of banks and banking holding companies in the available-for-sale portfolio in North America:

Rating				
AA	31	32	1	-
AA-	4	4	-	-
A+ to A-	442	431	3	14
BBB+ to BBB-	910	836	6	80
BB+ to B-	238	195	-	43
Not rated	41	40	4	5
Total	**1,666**	**1,538**	**14**	**142**

(4) Following are details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe:

England	529	531	8	6
Switzerland	164	162	1	3
France	224	224	1	1
Netherlands	191	192	1	-
Other*	166	166	1	1
Total	**1,274**	**1,275**	**12**	**11**

* Fair value amounts lower than NIS 100 million per country.

2. HELD-TO-MATURITY BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding the distribution of bonds in the held-to-maturity bonds portfolio according to economic sectors:

	September 30, 2013			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	17	17	-	-
Public and community services	*2,039	2,041	68	66
Financial services(1)	1,632	1,627	31	36
Total non government bonds	**3,688**	**3,685**	**99**	**102**
Total Government bonds	**3,735**	**3,987**	**252**	**-**
Total held-to-maturity bonds	**7,423**	**7,672**	**351**	**102**
(1) Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae**	557	561	13	9
Freddie Mac**	511	503	2	10
Fannie Mae**	276	267	-	9
Other Government Agencies**	90	85	-	5
Other***	198	211	16	3
Total financial services	**1,632**	**1,627**	**31**	**36**

*Most ot this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which , the three largest investments are in the amount of NIS 207-210 million, each, in municipal bonds of New York City, in bonds of the water corporation on New York city and in bonds of the state of New York.

**The said bonds were presented as of December 31, 2012 under "Public and community services" sector and in the reported period were reclassified to the "Financial services" sector.

***In the said group there is no bond whose fair value exceeds NIS 93 million.

3. TRADING BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding the distribution of bonds in the trading securities portfolio according to economic sectors:

	September 30, 2013			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors(1)	53	53	1	1
Financial services	68	67	-	1
Total non government bonds	**121**	**120**	**1**	**2**
Total government bonds	**2,735**	**2,740**	**6**	**1**
Total bonds in the trading portfolio	**2,856**	**2,860**	**7**	**3**

(1) In the said group the fair value of investments in its related bonds exceeds NIS 29 million.

4. EXPOSURE TO COMMERCIAL MORTGAGE BACKED SECURITIES (CMBS)

IDB New York holds commercial mortgage backed securities (CMBS) with a total balance sheet exposure of NIS 65 million as of September 30, 2013, compared with NIS 69 million as of December 31, 2012, a decrease of 5.8%. These securities are classified to the financial services economic sector. The collateral pertaining to these securities is all located in the United States (For further details see 2012 Annual Report, p. 281).
As of September 30, 2013, there was no impairment as regards the said securities.

5. UNREALIZED LOSSES - SHARES AVAILABLE FOR SALE

As at September 30, 2013, unrealized accumulated losses in respect of available-for sale shares amounted to an amount lower than NIS 1 million. At September 30, 2012, and December 31, 2012, there were no unrealized accumulated losses in respect of available-for sale shares.

6. UNREALIZED LOSSES - MORTGAGE BACKED SECURITIES AVAILABLE FOR SALE

Following are details regarding the distribution of unrealized accumulated losses on available for sale mortgage backed securities, according to the ratio of unrealized loss to the cost of the investment and the period of time in which this loss accrued:

	Period of decline in fair value below amortized cost				
Ratio of unrealized loss to amortized cost	Up to 6 months	From 6 to 9 months	From 9 to 12 months	Over 12 months	Total
	In NIS millions				
	September 30, 2013				
Up to 20%	89	16	9	41	155
Total	**89**	**16**	**9**	**41**	**155**
	September 30, 2012				
Up to 20%	36	6	6	11	59
Total	**36**	**6**	**6**	**11**	**59**
	December 31, 2012				
Up to 20%	28	19	4	13	64
Total	**28**	**19**	**4**	**13**	**64**

7. DETAILS REGARDING CERTAIN BONDS HELD BY IDB NEW YORK IN THEIR AVAILABLE FOR SALE PORTFOLIO

Presented below are details as of September 30, 2013, of certain bonds, held by IDB New York in their available for sale portfolio, with a ratio of unrealized loss of a temporary nature to amortized cost in excess of 20%, during a period which exceeds 12 months:

	September 30, 2013						
					Securities Ratings		
	Amortized Cost	Fair Value	Unrealized Loss	Final Maturity	Moody's	S&P	Fitch
Issuer's / Group's Name	in NIS thousands						
Securities with ratio of unrealized loss from 20% to 40%							
Bank of America	70,740	56,592	(14,148)	2028	Ba2	BB+	BB+
J.P. Morgan Chase	53,196	39,791	(13,405)	2027	Baa2	BBB	BBB
New York Environmental Facilities Corp	7,010	5,440	(1,570)	2032	Aaa	AAA	AAA
Total securities with ratio of unrealized loss from 20% to 40%	**130,946**	**101,823**	**(29,123)**				

Notes:
NR - Non Rated.
The data in the table was aggregated by issuer's group.

As of September 30, 2013, IDB New York did not hold in its available-for-sale portfolio any debentures having an unrealized loss of a temporary nature amounting to 40% or more, compared to their amortized cost.

Presented below are details as of December 31, 2012, of certain bonds, held by IDB New York in their available for sale portfolio, with a ratio of unrealized loss of a temporary nature to amortized cost in excess of 20%, during a period which exceeds 12 months:

	December 31, 2012						
					Securities Ratings		
	Amortized Cost	Fair Value	Unrealized Loss	Final Maturity	Moody's	S&P	Fitch
Issuer's / Group's Name	in NIS thousands						
Securities with ratio of unrealized loss from 20% to 40%							
Bank of America	147,659	113,942	(33,717)	2028	Ba2	+BB	BB
Suntrust	76,989	60,609	(16,380)	2028	Baa3	+BB	BB
J.P. Morgan Chase	56,148	43,112	(13,036)	2027	Baa2	BBB	BBB
Huntington Bank	18,665	13,360	(5,305)	2027	Baa3	+BB	BB
United Bancshares Inc	17,064	12,132	(4,932)	2037	NR	NR	NR
International Bancshares Corp	17,396	12,506	(4,890)	2037	NR	NR	NR
Keycorp	3,707	2,949	(758)	2028	Baa3	-BBB	+BB
Total securities with ratio of unrealized loss from 20% to 40%	**337,628**	**258,610**	**(79,018)**				

Notes:
NR - Non Rated.
The data in the table was aggregated by issuer's group.

7. DETAILS REGARDING CERTAIN BONDS HELD BY IDB NEW YORK IN THEIR AVAILABLE FOR SALE PORTFOLIO (CONTINUED)

As of September 30, 2013, approx. 95% of the unrealized loss detailed in the above table relate to Trust Preferred Securities (hereinafter: "TRUPS"), issued by financial institutions. Unrealized losses in the amount of approx. NIS 14 million is in respect of securities rated below investment grade by one or more rating agencies.

For details regarding TRUPS characteristics, see the 2012 Annual Report (p. 283). For details regarding the review of the portfolio, in order to determine whether other than temporary impairment (OTTI) has occurred, see the 2012 Annual Report (p. 284).

All the securities presented in the table are current in principal and interest and management has stated that it has the intent and ability to hold the security to maturity or recovery of their value over their book value.

A study of the volatility in prices of the securities presented above subsequent to balance sheet date (and up to November 18, 2013), indicates no significant changes compared to market prices at September 30, 2013.

Presented below are further details relating to particular groups presented in the table above, with regard to which there is an unrealized loss of NIS 10 million or more, as at September 30, 2013.

Bank of America corporation (BOA). BOA reported a net profit of US$2.4 billion for the third quarter 2013, compared with US$4 billion in the second quarter 2013 and US$340 million in the corresponding quarter last year. The reduction in profits was mostly affected by a reduction of US$ 2.3 billion in income and by an increase of US$389 million in operating and other expenses. On the other hand the reduction in profits was partly offset by a reduction of US$0.9 billion in credit losses expenses, which amounted to US$290 million in the third quarter of 2013 compared to US$1.2 billion in the previous quarter. Earnings per share was US$0.2, compared with US$0.32 in the previous quarter. Total assets amounted to US$2.12 trillion, similar to the previous quarter.

Non-performing loans at the third quarter 2013 were 5.18% of gross loans, compared to 5.97% in the previous quarter. The ratio of the allowance for credit losses to total non-performing loans at the end of the third quarter 2013 was 38.56%, compared to 37.03% at the end of the previous quarter.

BOA is a well-capitalized institution, with a Total Capital ratio of 15.36% at September 30, 2013, compared with 15.27% at June 30, 2013.

The international rating agency Moody's increased in November 2013 the rating of the said securities from "Ba2" to "Ba1".

JP Morgan Chase (JPM). JPM reported a net loss of US$380 million for the third quarter 2013, compared with a net income of US$6.4 billion in the second quarter 2013 and US$5.7 billion in the corresponding quarter last year.

The reduction in profits was mostly affected by a reduction of US$ 2 billion in non-interest income and by an increase of US$7.8 billion in operating and other expenses, which mostly included expenses in respect of legal and regulatory proceedings related to the "London whale" affair and to additional investigations conducted against the Bank, mainly in the mortgages field.

A reduction of US$467 million in credit losses expenses was recorded in the third quarter of 2013, compared to an expense of US$10 million in the previous quarter and an expense of US$1.8 billion in the corresponding quarter last year. Loss per share amounted to US$0.17 compared with earning per share of US$1.6 in the previous quarter. Total assets amounted to US$2.46 trillion, compared to US$2.43 trillion at the end of the previous quarter. Non-performing loans at the third quarter 2013 were 3.3% of gross loans, compared to 3.9% at the end of the previous quarter. The ratio of the allowance for credit losses to total non-performing loans was 69.4% at the end of the third quarter 2013, compared to 65.1% at the end of the previous quarter.

JPM is a well-capitalized institution, with a Total Capital ratio of 14.28% at September 30, 2013, compared to 14.12% at June 30, 2013.

PART "B": ADDITIONAL DETAILS - THIRD PILLAR OF BASEL II

1. TABLE 4 D - COUNTERPARTY TYPE DISTRIBUTION OF EXPOSURES

	Credit	Bonds	Other(1)	Guarantees and other liabilities on account of clients(2)	Transactions in derivative financial instruments(3)	Total
	in NIS millions					
	September 30, 2013					
Sovereigns	17,728	28,065	-	400	47	46,240
Public sector entities	1,531	4,835	-	310	228	6,904
Banking corporations	10,085	2,360	-	96	813	13,354
Corporations	65,776	2,025	-	30,560	886	99,247
Secured by commercial real estate	2,043	-	-	-	-	2,043
Retail exposures for private individuals	20,312	-	-	20,733	64	41,109
Small business loans	11,131	-	-	4,273	3	15,407
Housing mortgages	18,264	-	-	890	7	19,161
Securitization	-	1,116	-	-	-	1,116
Other assets	-	-	8,571	-	-	8,571
Total	**146,870**	**38,401**	**8,571**	**57,262**	**2,048**	**253,152**
	September 30, 2012					
Sovereigns	23,432	28,394	-	1	27	51,854
Public sector entities	904	3,820	-	341	35	5,100
Banking corporations	11,653	2,051	-	94	949	14,747
Corporations	70,406	1,732	-	35,095	653	107,886
Secured by commercial real estate	2,243	-	-	-	-	2,243
Retail exposures for private individuals	18,041	-	-	19,372	47	37,460
Small business loans	10,261	-	-	4,067	4	14,332
Housing mortgages	19,549	-	-	1,041	26	20,616
Securitization	-	442	-	-	-	442
Other assets	-	-	7,738	-	-	7,738
Total	**156,489**	**36,439**	**7,738**	**60,011**	**1,741**	**262,418**
	December 31, 2012					
Sovereigns	19,851	27,926	-	551	27	48,355
Public sector entities	1,218	3,357	-	309	120	5,004
Banking corporations	10,867	2,043	-	101	747	13,758
Corporations	67,819	1,798	-	34,504	603	104,724
Secured by commercial real estate	2,381	-	-	-	-	2,381
Retail exposures for private individuals	19,686	-	-	19,124	58	38,868
Small business loans	11,029	-	-	4,186	5	15,220
Housing mortgages	17,867	-	-	1,116	7	18,990
Securitization	-	750	-	-	-	750
Other assets	-	-	7,450	-	-	7,450
Total	**150,718**	**35,874**	**7,450**	**59,891**	**1,567**	**255,500**

Footnotes:

(1) Primarily: cash, shares, fixed assets.

(2) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(3) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

2. TABLE 4 E - DIVISION OF THE FILE ACCORDING TO REMAINING CONTRACTUAL MATURITY PERIODS[1]

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	No fixed maturity date[2]	Total Cash Flow
	in NIS millions				
	September 30, 2013				
Credit	83,371	42,741	26,061	2,790	154,963
Bonds	11,968	15,311	29,619	-	56,898
Others[3]	3,257	332	660	4,390	8,639
Guarantees and other liabilities on account of clients[4]	40,863	9,857	4,892	1,467	57,079
Transactions in derivative financial instruments[5]	2,452	2,134	608	-	5,194
Total	**141,911**	**70,375**	**61,840**	**8,647**	**282,773**
	September 30, 2012				
Credit	90,062	43,228	23,846	3,027	160,163
Bonds	8,801	15,857	32,250	-	56,908
Others[3]	2,567	362	642	4,261	7,832
Guarantees and other liabilities on account of clients[4]	41,074	12,509	4,917	1,330	59,830
Transactions in derivative financial instruments[5]	2,248	1,161	1,488	-	4,897
Total	**144,752**	**73,117**	**63,143**	**8,618**	**289,630**
	December 31, 2012				
Credit	85,891	42,142	25,751	3,145	156,929
Bonds	9,889	15,208	31,458	-	56,555
Others[3]	2,368	213	663	4,270	7,514
Guarantees and other liabilities on account of clients[4]	40,398	13,115	4,881	1,318	59,712
Transactions in derivative financial instruments[5]	[6]2,226	1,405	1,416	-	5,047
Total	**140,772**	**72,083**	**64,169**	**8,733**	**285,757**

Footnotes:

(1) This note presents the anticipated future contractual cash flows in respect of the exposures, according to the remaining periods to the contractual maturity date of each cash flow. The data is shown net of the allowance for credit losses, the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(2) Includes past due receivables totaling NIS 1,288 million (30.9.2012: NIS 1,696 million, 31.12.12: NIS 1,628 million).

(3) Primarily: cash, shares, fixed assets.

(4) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).

(5) Presented as calculated for the purpose of limitation on borrowes indebtedness.

(6) Reclassified, see note 1 E 2.

3. TABLE 5 - EXPOSURE AMOUNTS ACCORDING TO RISK WEIGHTS[(1)(2)]

Amount of exposure after allowance for credit losses and before credit risk mitigation

	0%	20%	35%	50%	75%	100%	150%	Total
	in NIS millions							
	September 30, 2013							
Sovereigns	44,090	1,051	-	1,098	-	1	-	46,240
Public sector entities	-	4,465	-	2,421	-	15	-	6,901
Banking corporations	-	10,961	-	1,576	-	812	1	13,350
Corporations	-	506	-	713	-	94,419	2,521	98,159
Commercial real estate	-	-	-	-	-	2,031	6	2,037
Retail exposures for private individuals	-	-	-	-	40,154	180	230	40,564
Small business loans	-	-	-	-	14,862	43	278	15,183
Housing mortgages	-	-	14,806	822	2,926	277	83	18,914
Securitization	-	1,100	-	16	-	-	-	1,116
Other	2,853	27	-	-	-	5,107	584	8,571
Total	**46,943**	**18,110**	**14,806**	**6,646**	**57,942**	**102,885**	**3,703**	**251,035**
	September 30, 2012							
Sovereigns	49,963	983	-	875	-	32	-	51,853
Public sector entities	-	3,490	-	1,599	-	9	-	5,098
Banking corporations	-	12,026	-	1,913	-	803	1	14,743
Corporations	-	544	-	703	-	102,350	3,120	106,717
Commercial real estate	-	-	-	-	-	2,234	-	2,234
Retail exposures for private individuals	-	-	-	-	36,729	174	170	37,073
Small business loans	-	-	-	-	13,777	136	232	14,145
Housing mortgages	-	-	16,511	-	3,150	660	121	20,442
Securitization	-	411	-	31	-	-	-	442
Other	2,253	45	-	-	-	4,891	549	7,738
Total	**52,216**	**17,499**	**16,511**	**5,121**	**53,656**	**111,289**	**4,193**	**260,485**
	December 31, 2012							
Sovereigns	46,358	1,003	-	995	-	-	-	48,356
Public sector entities	-	2,925	-	2,063	-	12	-	5,000
Banking corporations	-	11,514	-	1,426	-	816	-	13,756
Corporations	-	523	-	666	-	99,515	2,771	103,475
Commercial real estate	-	-	-	-	-	2,372	6	2,378
Retail exposures for private individuals	-	-	-	-	38,021	72	395	38,488
Small business loans	-	-	-	-	14,296	437	304	15,037
Housing mortgages	-	-	15,318	-	3,028	327	136	18,809
Securitization	-	733	-	17	-	-	-	750
Other	2,050	65	-	-	-	4,746	588	7,449
Total	**48,408**	**16,763**	**15,318**	**5,167**	**55,345**	**108,297**	**4,200**	**253,498**

Footnotes:

(1) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).

(2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

3. TABLE 5 - EXPOSURE AMOUNTS ACCORDING TO RISK WEIGHTS[(1)(2)] (CONTINUED)

Amount of exposure after allowance for credit losses and after credit risk mitigation

	0%	20%	35%	50%	75%	100%	150%	Total
				in NIS millions				
				September 30, 2013				
Sovereigns	45,364	1,051	-	1,098	-	1	-	47,514
Public sector entities	-	4,790	-	1,252	-	15		6,057
Banking corporations	-	8,107	-	7,165	-	812	1	16,085
Corporations	-	506	-	713	-	88,813	2,104	92,136
Commercial real estate	-	-	-	-	-	2,020	6	2,026
Retail exposures for private individuals	-	-	-	-	31,698	131	217	32,046
Small business loans	-	-	-	-	12,016	34	251	12,301
Housing mortgages	-	-	14,797	822	2,924	277	83	18,903
Securitization	-	1,100	-	16	-	-	-	1,116
Other	2,853	27	-	-	-	5,107	584	8,571
Total	**48,217**	**15,581**	**14,797**	**11,066**	**46,638**	**97,210**	**3,246**	**236,755**
				September 30, 2012				
Sovereigns	50,263	983	-	875	-	32	-	52,153
Public sector entities	-	3,490	-	1,299	-	9	-	4,798
Banking corporations	-	7,575	-	7,530	-	802	1	15,908
Corporations	-	544	-	703	-	97,299	2,908	101,454
Commercial real estate	-	-	-	-	-	2,222	-	2,222
Retail exposures for private individuals	-	-	-	-	28,282	171	154	28,607
Small business loans	-	-	-	-	11,083	122	214	11,419
Housing mortgages	-	-	16,477	-	3,150	659	121	20,407
Securitization	-	411	-	31	-	-	-	442
Other	2,253	45	-	-	-	4,891	549	7,738
Total	**52,516**	**13,048**	**16,477**	**10,438**	**42,515**	**106,207**	**3,947**	**245,148**
				December 31, 2012				
Sovereigns	47,386	1,003	-	995	-	-	-	49,384
Public sector entities	-	2,925	-	1,208	-	12	-	4,145
Banking corporations	-	7,385	-	6,810	-	816	-	15,011
Corporations	-	523	-	666	-	93,986	2,158	97,333
Commercial real estate	-	-	-	-	-	2,361	6	2,367
Retail exposures for private individuals	-	-	-	-	29,911	66	366	30,343
Small business loans	-	-	-	-	11,532	425	277	12,234
Housing mortgages	-	-	15,311	-	3,028	327	136	18,802
Securitization	-	733	-	17	-	-	-	750
Other	2,050	65	-	-	-	4,746	588	7,449
Total	**49,436**	**12,634**	**15,311**	**9,696**	**44,471**	**102,739**	**3,531**	**237,818**

Footnotes:

(1) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).

(2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

4. TABLE 7 - CREDIT RISK MITIGATION

	Gross credit exposure before allowance for credit losses(1)(2)	Gross credit exposure after allowance for credit losses(1)(2)	Credit exposure covered by eligible financial collateral(3)(4)	Total amounts subtracted(5)	Total amounts added(5)	Net credit exposure
	in NIS millions					
	September 30, 2013					
Sovereigns debts	46,240	46,240	-	-	1,274	47,514
Public sector entities debts	6,904	6,901	(1)	(1,168)	325	6,057
Banking corporations debts	13,354	13,350	(4,329)	-	7,064	16,085
Corporations debts	99,247	98,159	(5,026)	(997)	-	92,136
Secured by commercial real estate debts	2,043	2,037	(11)	-	-	2,026
Retail exposures for private individuals	41,109	40,564	(2,031)	(6,487)	-	32,046
Small business loans	15,407	15,183	(2,871)	(11)	-	12,301
Housing mortgages	19,161	18,914	(11)	-	-	18,903
Securitization	1,116	1,116	-	-	-	1,116
Other assets	8,571	8,571	-	-	-	8,571
Total	**253,152**	**251,035**	**(14,280)**	**(8,663)**	**8,663**	**236,755**
	September 30, 2012					
Sovereigns debts	51,854	51,853	-	-	300	52,153
Public sector entities debts	5,100	5,098	-	(300)	-	4,798
Banking corporations debts	14,747	14,743	(6,101)	-	7,266	15,908
Corporations debts	107,886	106,717	(4,646)	(617)	-	101,454
Secured by commercial real estate debts	2,243	2,234	(12)	-	-	2,222
Retail exposures for private individuals	37,460	37,073	(1,832)	(6,634)	-	28,607
Small business loans	14,332	14,145	(2,711)	(15)	-	11,419
Housing mortgages	20,616	20,442	(35)	-	-	20,407
Securitization	442	442	-	-	-	442
Other assets	7,738	7,738	-	-	-	7,738
Total	**262,418**	**260,485**	**(15,337)**	**(7,566)**	**7,566**	**245,148**
	December 31, 2012					
Sovereigns debts	48,355	48,356	-	-	1,028	49,384
Public sector entities debts	5,004	5,000	-	(854)	-	4,146
Banking corporations debts	13,758	13,756	(5,599)	-	6,854	15,011
Corporations debts	104,724	103,475	(5,404)	(738)	-	97,333
Secured by commercial real estate debts	2,381	2,378	(11)	-	-	2,367
Retail exposures for private individuals	38,868	38,488	(1,870)	(6,275)	-	30,343
Small business loans	15,220	15,037	(2,788)	(15)	-	12,234
Housing mortgages	18,990	18,809	(8)	-	-	18,801
Securitization	750	750	-	-	-	750
Other assets	7,450	7,449	-	-	-	7,449
Total	**255,500**	**253,498**	**(15,680)**	**(7,882)**	**7,882**	**237,818**

Footnotes:

(1) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).

(2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

(3) After balance sheet or off-balance sheet netting, when relevant, and after application of haircuts, including positive adjustments added to the exposure.

(4) Including gold.

(5) The amount of exposure covered by guaranties is presented as part of the obligations of the counterparty providing the guarantees.

5. TABLE 8 - DISCLOSURE REGARDING OVER THE COUNTER DERIVATIVES

	September 30		December 31
	2013	2012	2012
	in NIS millions		
Gross positive fair value of contracts[1]			
Interest rate contracts:			
Shekel/CPI	8	8	12
Other	2,332	2,214	2,486
Foreign currency contracts	1,040	1,069	1,158
Contracts on shares	58	62	111
Commodities and other contracts	3	6	3
Total Gross positive fair value of contracts	3,441	3,359	3,770
Potential off balance sheet exposure[2]	2,093	1,844	1,589
Netting benefits	(3,485)	(3,462)	(3,792)
Current credit exposure after netting[2]	2,049	1,741	1,567
Held collateral	(82)	(170)	(65)
Net credit exposure in respect of derivatives	**1,967**	**1,571**	**1,502**

Footnotes:

(1) Including embedded derivatives in the amount of NIS 49 million (30.9.2012: NIS 29 million, 31.12.12: NIS 43 million).

(2) Potential off-balance sheet credit exposure with respect to derivative instruments is calculated based on the notional principal amount of the entire counter-party portofolio, multiplied by the "Add-on" coefficient.

6. TABLE 9 - SECURITIZATION EXPOSURE

	Total exposure		
	September 30		December 31
	2013	2012	2012
	in NIS millions		
Mortgage-backed securities (MBS):			
Other mortage-backed securities (including CMO, REMIC and STRIPPED MBS)	52	53	54
Total mortgage-backed securities	**52**	**53**	**54**
Asset-backed securities (ABS):			
Collaterized bonds CLO	1,064	389	696
Total asset-backed securities	**1,064**	**389**	**696**
Total mortgage and asset-backed securities	**1,116**	**442**	**750**

	September 30				December 31	
	2013		2012		2012	
	Exposure	Capital requirements	Exposure	Capital requirements	Exposure	Capital requirements
		9%		9%		9%
	in NIS millions					
Risk weights:						
20%	1,100	20	411	8	733	13
50%	16	1	31	1	17	1
Total	**1,116**	**21**	**442**	**9**	**750**	**14**

7. TABLE 13 - SHARES POSITION IN THE BANKING BOOK

Following are details regarding investments in shares

	September 30				December 31	
	2013		2012		2012	
	Cost	Book value	Cost	Book value	Cost	Book value
	In NIS millions					
Investments in shares of affiliated companies[(1)(2)]:						
Non marketable shares	143	143	[(3)]54	[(3)]54	100	100
Shares in the available-for-sale portfolio:						
Marketable shares	79	90	26	27	62	63
Non marketable shares	776	776	609	609	641	641
Total shares in the available for sale portfolio	855	866	635	636	703	704
Total investment in shares	**998**	**1,009**	**689**	**690**	**803**	**804**

Footnotes:

(1) For further information, see Note 6 to the financial statements of December 31, 2012.

(2) For details regaeding an investment in the First International Bank, not included in the table, see Note 14 to the condensed financial statements.

(3) Improvement of the inclusion of data of an affiliated company.

Capital requirements regarding share position[(1)]

	September 30		December 31
	2013	2012	2012
	In NIS millions		
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[(2)]	79	74	79
In respect of investments in other shares[(3)]	27	8	12
With respect to owner's loans[(3)]	6	1	1
Total capital requirement regarding share position	**112**	**83**	**92**
Invesments deducted from capital[(4)]	1,744	1,584	1,687

Footnotes:

(1) The capital requirement was calculated on the basis of 9% and it does not include capital requirment in respect of investments in trading portfolio shares.

(2) These investments are weighted at risk weight of 150%.

(3) These investments are weighted at risk weight of 100%.

(4) Including in respect of the investnent in FIBI.

8. TABLE RELATING THE DISCLOSURE REQUIREMENTS ACCORDING TO THE THIRD PILLAR TO THE DATA PRESENTED IN THE REPORT

With a view of grouping together the information required by the provisional instruction, banking corporations have been required to include in the report a table relating the disclosure requirements stated in the instruction to the sections in the Directors' report or to the Notes to the financial statements in which the information required to be presented is included. The required information as above is reflected in the following table.

Table No.	Topic	Location*	Page No. in 2012 Annual Report	Page No. in this Report
Table 1	Scope of implementation	Basel II - The implementation in Israel of the Basel committee recommendations	127-130	66-67
Table 2a	Capital structure - qualitative disclosure	Note 14 to the financial statements, Interim report – Note 5	420-430	194-196
Table 2b,c,e	Capital structure - quantitative disclosure	Capital resources - The Bank's capital adequacy Note 14(1),14(4) to the financial statements, Interim report – Note 5	420-422	194-196
Table 3a	Capital adequacy - qualitative disclosure	Capital resources - The Bank's capital adequacy	35-38	21-22
Table 3b,d,e,f,g	Capital adequacy - quantitative disclosure	Capital resources - The Bank's capital adequacy Note 14(3) to the financial statements Interim report – Note 5	421	196
Section 824	General qualitative disclosure	Risk management policy and objectives, The structure and organization of the risk management function, factors involved in risk management	121-127	66-68
Table 4a	Credit risk - qualitative disclosure	Credit risk management	133-149	68-74
Table 4b	Credit risk - segmentation of credit risk according to the main credit exposure types	Credit risk management - Quantitative disclosure regarding credit risk	141	70
Table 4c	Credit risk - main geographic distribution of exposures	Management review - Schedule "F", Interim report – Schedule "C"	316-319	138-142
Table 4d	Credit risk - Counterparty type distribution of exposures	Credit risk management - Quantitative disclosure regarding credit risk Annex to the Report of the Board of Directors – Part "B"	286	114
Table 4e	Credit risk - Residual contractual maturity breakdown of the whole portfolio	Credit risk management - Quantitative disclosure regarding credit risk Annex to the Report of the Board of Directors – Part "B"	287	115
Table 4f	Credit risk - problematic debts	Management review - Schedule "E", Interim report – Schedule "D"	314-315	143-147

* Unless stated otherwise, the location is under "Exposure to Risks and Risks management" or as a Note to the Financial Statements.

8. TABLE RELATING THE DISCLOSURE REQUIREMENTS ACCORDING TO THE THIRD PILLAR TO THE DATA PRESENTED IN THE REPORT (CONTINUED)

Table No.	Topic	Location*	Page No. in 2012 Annual Report	Page No. in this Report
Table 4g	Credit risk - problematic debts classified according to main geographical areas	Management review - Schedule "F", Interim report – Schedule "C"	316-319	138-142
Table 4h	Credit risk - change in the balance of allowance for credit losses	Note 4 A to the financial statements, Interim report – Note 3 A	384-387	176-179
Table 5	Credit risk - disclosure as to credit files managed according to the standard approach	Credit risk management - Disclosure as to credit files managed according to the standard approach Annex to the Report of the Board of Directors – Part "B"	288-289	115-117
Table 7	Credit risk mitigation	Credit risk management - Credit risk mitigation Annex to the Report of the Board of Directors – Part "B"	290	118
Table 8	General disclosure for exposure related to counterparty credit risk	Credit risk management - General disclosure regarding exposure related to credit risk of a counterparty	141-143	70-71
		Annex to the Report of the Board of Directors – Part "B"	291	119
Table 9	Securitization exposure	Credit risk management – Securitization exposure	143	71
		Annex to the Report of the Board of Directors – Part "B"	291	119
Table 10	Market risk	Management of market and liquidity risks	149-162	74-79
Table 12	Operational risks	Operational risks	164-168	79-80
Table 13	Share positions in the banking book	Annex to the Report of the Board of Directors – Part "B"	292	120
Table 14	Interest rate risk in the banking book	Management of market and liquidity risks	149-162	74-79

* Unless stated otherwise, the location is under "Exposure to Risks and Risks management" or as a Note to the Financial Statements.

PART "C": ADDITIONAL DETAILS

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

(1) Following are details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank:

	As of September 30, 2013	As of December 31, 2012*
	In NIS million	
Balances of assets deriving from derivative instruments where the counterparties are banks		
With an AAA rating	-	1
With an AA- rating	387	346
With an A+ rating	45	59
With an A rating	709	876
With an A- rating	171	550
With a BBB+ rating	317	2
With a BBB rating	-	34
Not rated	16	14
Total against foreign banks	**1,645**	**1,882**
Total against Israeli banks	**994**	**1,283**
Total balances of assets deriving from transactions in derivative instruments	**2,639**	**3,165**

(2) Following are details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank:

	As of September 30, 2013	As of December 31, 2012*
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments where the counterparties are banks		
With an AAA rating	-	1
With an AA- rating	84	56
With an A+ rating	20	6
With an A rating	105	120
With an A- rating	11	57
With an BBB+ rating	18	9
With an BBB rating	1	1
Not rated	-	1
Total against foreign banks	**239**	**251**
Total against Israeli banks	**52**	**58**
Total Off balances of assets deriving from transactions in derivative instruments	**291**	**309**

*Reclassified, For details regarding the implementation of the instructions of the Supervisor of Banks regarding the setoff of assets and liabilities, see Note 1 E 2.

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Following are details of the column "Other" in Note 8 B to the condensed financial statements according to the total credit to the public risk per economic sectors:

	As of September 30, 2013	As of September 30, 2012	As of December 31, 2012
		in NIS million	
Agriculture	2	12	3
Industry:			
Machines, electrical and electronic equipment	106	91	53
Mining, chemical industry and oil products	95	201	122
Other	38	31	37
Total industry	239	323	212
Construction and real estate:			
Acquisition of real estate for construction	59	93	72
Real estate holdings	80	2	92
Other	5	27	16
Total Construction and real estate	144	122	180
Electricity and water	362	76	211
Commerce	105	72	71
Hotels, hotel services and food	3	1	-
Transporation and storage	81	71	39
Communications and computer services	13	3	7
Financial services:			
Financial institution (excluding banks)	62	11	172
Private customers active on the capital market	469	172	132
Financial holding institutions	195	17	50
Insurance and provident fund services	227	163	61
Total financial services	953	363	415
Business and other services	32	21	96
Public and community services	2	68	10
Private individuals - housing loans	-	34	-
Private individuals - other	123	125	125
Total	**2,059**	**1,291**	**1,369**
Credit risk mitigation in respect of financial instruments	(212)	-	(149)
Total credit risk in respect of derivative instruments	**1,847**	**1,291**	**1,220**

2. CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Following are data regarding credit risk in respect of leveraged finance. Disclosure is focused on exposures, each of which exceeds NIS 50 million.

The Bank's exposure to leveraged finance according to the economic sector of the acquired corporation:

	Balance sheet credit as of	
	September 30, 2013	December 31, 2012*
Sector	In NIS millions	
Industry	1,470	1,051
Construction and real estate	1,714	**1,965
Electricity and water	27	131
Commerce	495	526
Transportation and storage	204	178
Communications and computer services	144	153
Financial services	563	725
Total	**4,617**	**4,729**

* Reclassification due to extension of the definition of leveraged finance.
** Reclassified in respect of a reclassification of exposure from other business services sector to construction and real estate sector.

Exposure to leveraged finance as of September 30, 2013 amounted to NIS 4,617 million, compared to NIS 4,729 million for December 31, 2012, a decrease of 2.4%. For changes in the definition of leverage finance – see the Report of the Board of Directors above, under "Credit risk management".
The balance of exposure presented in the table above, is net of accounting write-offs in accordance with the directive regarding impaired debts. The off-balance sheet exposure in respect of leverage finance transactions as of September 30, 2013, amounted to NIS 428 million (December 31, 2012 – NIS 433 million).

3. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 2 A to the condensed financial statements includes, among other things, details regarding investments in government bonds included in the held to maturity portfolio, the available-for-sale portfolio and the trading portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Following are details as of September 30, 2013, divided by governments with respect to the total securities portfolio:

	September 30, 2013		December 31, 2012	
	Book value	Fair value(1)	Book value	Fair value(1)
	In NIS millions			
Of the Israeli Government	28,077	28,328	26,682	26,941
U.S. government	530	529	336	336
Other governments	453	(2)455	615	(2)618
Total	**29,060**	**29,312**	**27,633**	**27,895**

Footnotes:
(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(2) Among the other goverments, there is not one government the investment in bonds and loans and thereof exceeds NIS 313 million as of September 30, 2013 (NIS 374 million as of December 31,2012).

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1]

Part "A" - Average balances and interest rates - assets

	For the three months ended September 30					
	2013			2012		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:[3]						
In Israel	92,563	1,313	5.80	95,884	1,402	5.98
Outside Israel	17,315	153	3.58	18,702	175	3.80
Total credit to the public	**109,878**	***1,466**	**5.44**	**114,586**	***1,577**	**5.62**
Credit to the Government:						
In Israel	1,791	23	5.24	1,650	14	3.44
Outside Israel	65	1	6.30	44	1	9.41
Total credit to the Government	**1,856**	**24**	**5.27**	**1,694**	**15**	**3.59**
Deposits with banks:						
In Israel	2,572	6	0.94	1,991	5	1.01
Outside Israel	1,980	6	1.22	2,209	8	1.46
Total deposits with banks	**4,552**	**12**	**1.06**	**4,200**	**13**	**1.24**
Deposits with central banks:						
In Israel	10,733	33	1.24	17,951	102	2.29
Outside Israel	857	1	0.47	799	1	0.50
Total deposits with central banks	**11,590**	**34**	**1.18**	**18,750**	**103**	**2.22**
Securities borrowed or purchased under resale agreements:						
In Israel	241	[9]-	-	482	2	1.67
Total securities borrowed or purchased under resale agreements	**241**	**-**	**-**	**482**	**2**	**1.67**
Bonds held for redemption and available for sale:[4]						
In Israel	27,996	219	3.17	25,322	227	3.63
Outside Israel	16,105	86	2.15	18,503	115	2.51
Total bonds held for redemption and available for sale	**44,101**	**305**	**2.80**	**43,825**	**342**	**3.16**
Trading bonds:[4]						
In Israel	2,816	19	2.73	1,074	15	5.70
Outside Israel	57	[9]-	-	55	[9]-	-
Total trading bonds	**2,873**	**19**	**2.67**	**1,129**	**15**	**5.42**
Other assets:						
Outside Israel	614	5	3.30	660	9	5.57
Total other assets	**614**	**5**	**3.30**	**660**	**9**	**5.57**
Total interest bearing assets	**175,705**	**1,865**	**4.31**	**185,326**	**2,076**	**4.56**
Debtors in respect of credit card operations	5,734			5,986		
Other non-interest bearing assets[5]	15,254			14,710		
Total assets	**196,693**			**206,022**		
Of which: Total interest bearing assets attributable to operations outside Israel	36,993	252	2.75	40,972	309	3.05

* Commissions included in interest income from credit to the public		40			28	
Of which: Credit allotment commissions		22			24	

For footnotes see page 129.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED(1) (CONTINUED)

Part "B" - Average balances and interest rates - liabilities and equity

	For the three months ended September 30					
	2013			2012		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	12,009	4	0.13	9,901	8	0.32
In Israel - Time deposits	95,555	401	1.69	107,279	563	2.12
Total deposits from the public in Israel	**107,564**	**405**	**1.51**	**117,180**	**571**	**1.96**
Outside Israel - On call	13,076	14	0.43	12,183	13	0.43
Outside Israel - Time deposits	7,744	19	0.99	9,620	28	1.17
Total deposits from the public outside Israel	**20,820**	**33**	**0.64**	**21,803**	**41**	**0.75**
Total deposits from the public	**128,384**	**438**	**1.37**	**138,983**	**612**	**1.77**
Deposits from the Government:						
In Israel	360	1	1.12	384	2	2.10
Outside Israel	648	1	0.62	663	1	0.60
Total deposits from the Government	**1,008**	**2**	**0.80**	**1,047**	**3**	**1.15**
Deposits from banks:						
In Israel	2,320	10	1.74	2,829	8	1.14
Outside Israel	1,637	5	1.23	2,115	9	1.71
Total deposits from banks	**3,957**	**15**	**1.52**	**4,944**	**17**	**1.38**
Securities loaned or sold under repurchase agreements:						
Outside Israel	4,356	39	3.63	6,098	55	3.66
Total securities loaned or sold under repurchase agreements	**4,356**	**39**	**3.63**	**6,098**	**55**	**3.66**
Bonds:						
In Israel	12,092	274	9.38	12,379	242	8.05
Total bonds	**12,092**	**274**	**9.38**	**12,379**	**242**	**8.05**
Other liabilities:						
In Israel	160	3	7.71	152	5	13.82
Total other liabilities	**160**	**3**	**7.71**	**152**	**5**	**13.82**
Total interest bearing liabilities	**149,957**	**771**	**2.07**	**163,603**	**934**	**2.30**
Non-interest bearing deposits from the public	20,404			15,844		
Creditors in respect of credit card operations	6,296			5,914		
Other non-interest bearing liabilities(6)	7,873			8,983		
Total liabilities	**184,530**			**194,344**		
Total capital resources	**12,163**			**11,678**		
Total liabilities and capital resources	**196,693**			**206,022**		
Interest margin		**1,094**	**2.24**		**1,142**	**2.26**
Net return on interest bearing assets:(7)						
In Israel	138,712	920	2.68	144,354	939	2.63
Outside Israel	36,993	174	1.89	40,972	203	2.00
Total net return on interest bearing assets	**175,705**	**1,094**	**2.51**	**185,326**	**1,142**	**2.49**
Of which: Total interest bearing liabilities attributable to operations outside Israel	27,461	78	1.14	30,679	106	1.39

For footnotes see page 129.

SCHEDULE "A" – RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES – CONSOLIDATED[1] (CONTINUED)

Part "C" – Average balances and interest rates – additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the three months ended September 30					
	2013			2012		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	97,727	978	4.06	98,475	1,203	4.98
Total interest bearing liabilities	(81,174)	(243)	(1.20)	(86,342)	(420)	(1.96)
Interest margin		**735**	**2.86**		**783**	**3.02**
CPI-linked shekels:						
Total interest bearing assets	24,664	519	8.69	25,631	410	6.55
Total interest bearing liabilities	(19,817)	(418)	(8.71)	(20,469)	(346)	(6.93)
Interest margin		**101**	**(0.02)**		**64**	**(0.38)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	16,321	116	2.87	20,248	154	3.08
Total interest bearing liabilities	(21,505)	(32)	(0.60)	(26,113)	(62)	(0.95)
Interest margin		**84**	**2.27**		**92**	**2.13**
Total operations in Israel:						
Total interest bearing assets	138,712	1,613	4.73	144,354	1,767	4.99
Total interest bearing liabilities	(122,496)	(693)	(2.28)	(132,924)	(828)	(2.52)
Interest margin		**920**	**2.45**		**939**	**2.47**

For footnotes see next page.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "D" - Analysis of changes in interest income and expenses

	For the three months ended September 30 2013 Compared to 2012		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	(47)	(42)	(89)
Outside Israel	(12)	(10)	(22)
Total credit to the public	**(59)**	**(52)**	**(111)**
Other interest bearing assets:			
In Israel	(15)	(50)	(65)
Outside Israel	(13)	(22)	(35)
Total other interest bearing assets	**(28)**	**(72)**	**(100)**
Total interest income	**(87)**	**(124)**	**(211)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	(36)	(130)	(166)
Outside Israel	(2)	(6)	(8)
Total deposits from the public	**(38)**	**(136)**	**(174)**
Other interest bearing liabilities:			
In Israel	(16)	47	31
Outside Israel	(15)	(5)	(20)
Total other interest bearing liabilities	**(31)**	**42**	**11**
Total interest expenses	**(69)**	**(94)**	**(163)**
Interest income, net	**(18)**	**(30)**	**(48)**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 4 million and NIS 169 million, respectively; 2012 – NIS (19) million and NIS 170 million respectively.

(5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

(9) An amount lower than NIS 1 million.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[(1)] (CONTINUED)

Part "E" - Average balances and interest rates - assets

	For the nine months ended September 30					
	2013			2012		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets						
Credit to the public:[(3)]						
In Israel	93,391	3,683	5.29	95,406	4,163	5.86
Outside Israel	17,386	462	3.56	17,584	506	3.86
Total credit to the public	**110,777**	***4,145**	**5.02**	**112,990**	***4,669**	**5.55**
Credit to the Government:						
In Israel	1,710	37	2.90	1,632	35	2.87
Outside Israel	72	2	3.72	38	1	3.52
Total credit to the Government	**1,782**	**39**	**2.93**	**1,670**	**36**	**2.88**
Deposits with banks:						
In Israel	2,409	23	1.28	2,079	30	1.93
Outside Israel	2,114	19	1.20	2,301	24	1.39
Total deposits with banks	**4,523**	**42**	**1.24**	**4,380**	**54**	**1.65**
Deposits with central banks:						
In Israel	11,779	135	1.53	17,525	322	2.46
Outside Israel	1,591	4	0.34	901	4	0.59
Total deposits with central banks	**13,370**	**139**	**1.39**	**18,426**	**326**	**2.37**
Securities borrowed or purchased under resale agreements:						
In Israel	335	3	1.20	334	5	2.00
Total securities borrowed or purchased under resale agreements	**335**	**3**	**1.20**	**334**	**5**	**2.00**
Bonds held for redemption and available for sale:[(4)]						
In Israel	27,064	581	2.87	24,374	671	3.69
Outside Israel	16,313	249	2.04	18,111	361	2.67
Total bonds held for redemption and available for sale	**43,377**	**830**	**2.56**	**42,485**	**1,032**	**3.25**
Trading bonds:[(4)]						
In Israel	3,357	69	2.75	1,670	60	4.82
Outside Israel	52	[(9)]-	-	253	5	2.64
Total trading bonds	**3,409**	**69**	**2.71**	**1,923**	**65**	**4.53**
Other assets:						
In Israel	-	9	-	-	4	-
Outside Israel	617	15	3.25	636	19	4.00
Total other assets	**617**	**24**	**5.22**	**636**	**23**	**4.85**
Total interest bearing assets	**178,190**	**5,291**	**3.98**	**182,844**	**6,210**	**4.55**
Debtors in respect of credit card operations	5,589			5,566		
Other non-interest bearing assets[(5)]	15,140			14,328		
Total assets	**198,919**			**202,738**		
Of which: Total interest bearing assets attributable to operations outside Israel	38,145	751	2.63	39,824	920	3.09

* Commissions included in interest income from credit to the public		114			85	
Of which: Credit allotment commissions		72			74	

For footnotes see page 133.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED(1) (CONTINUED)

Part "F" - Average balances and interest rates - liabilities and equity

	For the nine months ended September 30					
	2013			2012		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	11,160	13	0.16	9,583	24	0.33
In Israel - Time deposits	99,112	1,146	1.54	106,561	1,717	2.15
Total deposits from the public in Israel	**110,272**	**1,159**	**1.40**	**116,144**	**1,741**	**2.00**
Outside Israel - On call	13,241	41	0.41	11,667	37	0.42
Outside Israel - Time deposits	8,150	62	1.02	9,468	83	1.17
Total deposits from the public outside Israel	**21,391**	**103**	**0.64**	**21,135**	**120**	**0.76**
Total deposits from the public	**131,663**	**1,262**	**1.28**	**137,279**	**1,861**	**1.81**
Deposits from the Government:						
In Israel	376	4	1.42	382	6	2.10
Outside Israel	648	3	0.62	607	3	0.66
Total deposits from the Government	**1,024**	**7**	**0.91**	**989**	**9**	**1.22**
Deposits from banks:						
In Israel	2,446	35	1.91	2,769	49	2.37
Outside Israel	1,437	16	1.49	1,777	25	1.88
Total deposits from banks	**3,883**	**51**	**1.76**	**4,546**	**74**	**2.18**
Securities loaned or sold under repurchase agreements:						
Outside Israel	4,754	128	3.61	6,482	177	3.66
Total securities loaned or sold under repurchase agreements	**4,754**	**128**	**3.61**	**6,482**	**177**	**3.66**
Bonds:						
In Israel	12,100	655	7.28	12,367	687	7.47
Total bonds	**12,100**	**655**	**7.28**	**12,367**	**687**	**7.47**
Other liabilities:						
In Israel	155	9	7.82	146	9	8.30
Total other liabilities	**155**	**9**	**7.82**	**146**	**9**	**8.30**
Total interest bearing liabilities	**153,579**	**2,112**	**1.84**	**161,809**	**2,817**	**2.33**
Non-interest bearing deposits from the public	19,183			15,370		
Creditors in respect of credit card operations	6,150			5,904		
Other non-interest bearing liabilities(6)	8,034			8,255		
Total liabilities	**186,946**			**191,338**		
Total capital resources	**11,973**			**11,400**		
Total liabilities and capital resources	**198,919**			**202,738**		
Interest margin		**3,179**	**2.14**		**3,393**	**2.22**
Net return on interest bearing assets:(7)						
In Israel	140,045	2,678	2.56	143,020	2,798	2.62
Outside Israel	38,145	501	1.76	39,824	595	2.00
Total net return on interest bearing assets	**178,190**	**3,179**	**2.39**	**182,844**	**3,393**	**2.48**
Of which: Total interest bearing liabilities attributable to operations outside Israel	28,230	250	1.18	30,001	325	1.45

For footnotes see page 133.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "G" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the nine months ended September 30					
	2013			2012		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	98,519	3,085	4.20	96,979	3,637	5.03
Total interest bearing liabilities	(82,661)	(862)	(1.39)	(84,976)	(1,336)	(2.10)
Interest margin		**2,223**	**2.81**		**2,301**	**2.93**
CPI-linked shekels:						
Total interest bearing assets	24,881	1,105	5.96	26,193	1,169	5.99
Total interest bearing liabilities	(19,978)	(894)	(6.01)	(20,657)	(953)	(6.20)
Interest margin		**211**	**(0.05)**		**216**	**(0.21)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	16,645	350	2.81	19,848	484	3.26
Total interest bearing liabilities	(22,710)	(106)	(0.62)	(26,175)	(203)	(1.04)
Interest margin		**244**	**2.19**		**281**	**2.22**
Total operations in Israel:						
Total interest bearing assets	140,045	4,540	4.35	143,020	5,290	4.96
Total interest bearing liabilities	(125,349)	(1,862)	(1.99)	(131,808)	(2,492)	(2.53)
Interest margin		**2,678**	**2.36**		**2,798**	**2.43**

For footnotes see next page.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED(1) (CONTINUED)

Part "H" - Analysis of changes in interest income and expenses

	For the nine months ended September 30 2013 Compared to 2012		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	(79)	(401)	(480)
Outside Israel	(5)	(39)	(44)
Total credit to the public	**(84)**	**(440)**	**(524)**
Other interest bearing assets:			
In Israel	(18)	(252)	(270)
Outside Israel	(21)	(104)	(125)
Total other interest bearing assets	**(39)**	**(356)**	**(395)**
Total interest income	**(123)**	**(796)**	**(919)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	(62)	(520)	(582)
Outside Israel	1	(18)	(17)
Total deposits from the public	**(61)**	**(538)**	**(599)**
Other interest bearing liabilities:			
In Israel	(27)	(21)	(48)
Outside Israel	(44)	(14)	(58)
Total other interest bearing liabilities	**(71)**	**(35)**	**(106)**
Total interest expenses	**(132)**	**(573)**	**(705)**
Interest income, net	**9**	**(223)**	**(214)**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS (8) million and NIS 303 million, respectively; 2012 – NIS (11) million and NIS 62 million respectively.

(5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

(9) An amount lower than NIS 1 million.

SCHEDULE "B" – EXPOSURE TO CHANGES IN INTEREST RATES – CONSOLIDATED

	As at September 30, 2013				
	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
	in NIS millions				
Non linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	71,930	14,486	10,203	5,811	1,439
Derivative financial instruments (except for options)	15,014	27,238	20,926	11,136	9,903
Options (in terms of base assets)	273	469	574	116	75
Total fair value	**87,217**	**42,193**	**31,703**	**17,063**	**11,417**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	70,088	9,421	12,042	4,962	700
Derivative financial instruments (except for options)	19,423	32,926	18,492	10,931	10,474
Options (in terms of base assets)	176	450	495	22	4
Off-balance sheet financial instruments	-	1	6	1	-
Total fair value	**89,687**	**42,798**	**31,035**	**15,916**	**11,178**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(2,470)	(605)	668	1,147	239
Cumulative exposure in the segment	**(2,470)**	**(3,075)**	**(2,407)**	**(1,260)**	**(1,021)**
CPI linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	579	2,157	3,740	8,346	5,287
Derivative financial instruments (except for options)	245	132	725	698	798
Options (in terms of base assets)	-	2	6	13	4
Total fair value	**824**	**2,291**	**4,471**	**9,057**	**6,089**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	222	591	4,502	5,868	3,553
Derivative financial instruments (except for options)	207	455	2,859	1,454	411
Options (in terms of base assets)	-	4	15	49	27
Off-balance sheet financial instruments	-	1	5	1	-
Total fair value	**429**	**1,051**	**7,381**	**7,372**	**3,991**
Financial instruments, net					
Exposure to changes in interest rates in the segment	395	1,240	(2,910)	1,685	2,098
Cumulative exposure in the segment	**395**	**1,635**	**(1,275)**	**410**	**2,508**

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

As at September 30, 2013							As at September 30, 2012			As at December 31, 2012		
Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
in NIS millions												
3,573	480	18	529	108,469	3.51%	0.60	109,560	4.86%	0.75	106,722	4.21%	0.69
5,727	56	-	-	90,000		1.38	86,577		1.19	79,166		1.36
41	4	-	-	1,552		0.01	1,871		0.01	2,408		0.01
9,341	**540**	**18**	**529**	**200,021**		**(2)0.95**	**198,008**		**(2)0.94**	**188,296**		**(2)0.96**
678	77	-	-	97,968	0.92%	0.27	97,952	2.03%	0.28	96,090	1.51%	0.29
6,175	35	-	-	98,456		1.30	97,180		1.17	89,005		1.30
1	-	-	-	1,148		0.01	1,717		0.01	2,044		0.01
-	-	-	-	8		0.01	10		0.01	10		0.01
6,854	**112**	**-**	**-**	**197,580**		**(2)0.76**	**196,859**		**(2)0.76**	**187,149**		**(2)0.76**
2,487	428	18	529	2,441			1,149			1,147		
1,466	**1,894**	**1,912**	**2,441**									
4,742	924	38	74	25,887	2.04%	3.33	25,807	2.10%	3.64	25,530	2.08%	3.78
740	3	-	-	3,341		3.13	2,968		3.42	3,109		3.09
2	-	-	-	27		0.01	18		0.01	54		0.01
5,484	**927**	**38**	**74**	**29,255**		**(2)3.31**	**28,793**		**(2)3.61**	**28,693**		**(2)3.70**
6,279	522	-	-	21,537	0.96%	3.65	22,144	1.43%	3.97	22,050	1.14%	4.04
1,218	-	-	-	6,604		2.09	4,312		3.03	4,441		2.78
3	-	-	-	98		0.01	158		0.01	239		0.01
-	-	-	-	7		0.72	10		0.65	9		0.64
7,500	**522**	**-**	**-**	**28,246**		**(2)3.27**	**26,624**		**(2)3.80**	**26,739**		**(2)3.79**
(2,016)	405	38	74	1,009			2,169			1,954		
492	**897**	**935**	**1,009**									

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see "Management and measurement of market risks" under "Exposure to risks and risk management".

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentiles, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

SCHEDULE "B" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED (CONTINUED)

	As at September 30, 2013				
	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
	in NIS millions				
Foreign currency[4]					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	26,280	10,157	4,688	4,368	2,945
Derivative financial instruments (except for options)	21,967	22,621	23,088	3,884	2,868
Options (in terms of base assets)	1,849	2,866	2,464	57	-
Total fair value	**50,096**	**35,644**	**30,240**	**8,309**	**5,813**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	38,532	8,429	9,826	3,326	2,572
Derivative financial instruments (except for options)	16,468	21,263	17,785	3,865	3,143
Options (in terms of base assets)	1,925	2,888	2,521	102	38
Off-balance sheet financial instruments	-	-	1	-	-
Total fair value	**56,925**	**32,580**	**30,133**	**7,293**	**5,753**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(6,829)	3,064	107	1,016	60
Cumulative exposure in the segment	**(6,829)**	**(3,765)**	**(3,658)**	**(2,642)**	**(2,582)**
Total exposure to changes in interest rates					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1],[3]	98,796	26,800	18,631	18,525	9,671
Derivative financial instruments (except for options)	37,226	49,991	44,739	15,718	13,569
Options (in terms of base assets)	2,122	3,337	3,044	186	79
Total fair value	**138,144**	**80,128**	**66,414**	**34,429**	**23,319**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	108,849	18,441	26,370	14,156	6,825
Derivative financial instruments (except for options)	36,098	54,644	39,136	16,250	14,028
Options (in terms of base assets)	2,101	3,342	3,031	173	69
Off-balance sheet financial instruments	-	2	80	2	-
Total fair value	**147,048**	**76,429**	**68,617**	**30,581**	**20,922**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(8,904)	3,699	(2,203)	3,848	2,397
Cumulative exposure in the segment	**(8,904)**	**(5,205)**	**(7,408)**	**(3,560)**	**(1,163)**

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

As at September 30, 2013							As at September 30, 2012			As at December 31, 2012		
Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
in NIS millions												
4,193	2,177	-	871	55,679	2.89%	1.58	60,455	2.74%	1.18	58,814	2.53%	1.16
5,056	-	-	-	79,484		0.65	79,066		0.58	65,301		0.60
-	-	-	-	7,236		0.01	5,830		0.01	4,368		0.01
9,249	**2,177**	**-**	**871**	**142,399**		**[2]0.98**	**145,351**		**[2]0.80**	**128,483**		**[2]0.84**
1,245	17	-	-	63,947	0.56%	0.52	69,573	0.75%	0.61	66,715	0.65%	0.58
6,248	3	-	-	68,775		0.84	67,894		0.75	55,121		0.81
31	6	-	-	7,511		0.01	5,832		0.01	4,510		0.01
-	-	-	-	1		0.67	1		0.67	1		0.67
7,524	**26**	**-**	**-**	**140,234**		**[2]0.65**	**143,300**		**[2]0.65**	**126,347**		**[2]0.66**
1,725	2,151	-	871	2,165			2,051			2,136		
(857)	**1,294**	**1,294**	**2,165**									
12,508	3,581	56	2,342	190,910	3.13%	1.26	196,460	3.85%	1.27	191,772	3.41%	1.25
11,523	59	-	-	172,825		1.08	168,611		0.94	147,576		1.06
43	4	-	-	8,815		0.01	7,719		0.01	6,830		0.01
24,074	**3,644**	**56**	**2,342**	**372,550**		**[2]1.15**	**372,790**		**[2]1.09**	**346,178**		**[2]1.14**
8,202	616	-	-	183,459	0.80%	0.76	189,669	1.49%	0.83	184,855	1.16%	0.84
13,641	38	-	-	173,835		1.15	169,386		1.05	148,567		1.16
35	6	-	-	8,757		0.01	7,707		0.01	6,793		0.01
-	-	-	-	84		0.07	78		0.09	78		0.08
21,878	**660**	**-**	**-**	**366,135**		**[2]0.92**	**366,840**		**[2]0.92**	**340,293**		**[2]0.96**
2,196	2,984	56	2,342	6,415			5,950			5,885		
1,033	**4,017**	**4,073**	**6,415**									

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see “Management and measurement of market risks" under "Exposure to risks and risk management".

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentiles, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

SCHEDULE "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1]

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's equity, the lower of the two

	September 30, 2013		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	1,337	2,258	1,199
United Kingdom	-	2,092	111
PIIGS[5]	-	3	15
Other	300	4,630	3,942
Total exposure to foreign countries	**1,637**	**8,983**	**5,267**
Of which - Total exposure to LDC countries	**124**	**813**	**795**

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Ireland, Italy, Greece and Spain.

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% the equity, whichever is lower.

The total exposure to foreign countries as of September 30, 2013, includes exposure on a consolidated basis to Switzerland, in the amount of NIS 1,877 million.

C. Information regarding balance sheet exposure to foreign countries having liquidity problems, for the period of nine months ended September 30, 2013

1. Changes in the amount of balance sheet exposure to foreign countries having liquidity problems

	Outstanding balances
	Ireland
	In NIS millions
Amount of exposure at the beginning of year	9
Changes in remaining exposure:	
Amounts collected	(5)
Other changes (including provisions and write-offs)	1
Amount of exposure at period end	**5**

2. Information regarding balance-sheet exposures that have undergone restructuring

As of September 30, 2013 the Bank had no such exposure.

September 30, 2013									
Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)			
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure(2)	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
27,052	20,248	6,804	11,598	662	251	6,857	-	3,847	947
929	103	826	3,029	553	552	64	-	1,439	764
-	-	-	18	-	-	16	-	9	9
2,472	1,897	575	9,447	612	610	1,128	4	4,583	4,289
30,453	**22,248**	**8,205**	**24,092**	**1,827**	**1,413**	**8,065**	**4**	**9,878**	**6,009**
1,641	**1,641**	**-**	**1,732**	**29**	**28**	**247**	**1**	**992**	**740**

The item "Total LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Banking Management Directive No. 315 regarding "Additional allowance for doubtful debts".

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers, across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

SCHEDULE "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1] (CONTINUED)

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's equity, the lower of the two.

	September 30, 2012		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	1,467	2,142	1,811
United Kingdom	-	1,984	146
PIIGS[5]	-	9	13
Other	285	3,598	4,141
Total exposure to foreign countries	**1,752**	**7,733**	**6,111**
Of which - Total exposure to LDC countries	**129**	**912**	**920**

	December 31, 2012		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	1,482	2,108	1,243
United Kingdom	93	2,059	135
PIIGS[5]	-	4	16
Other	274	3,588	3,818
Total exposure to foreign countries	**1,849**	**7,759**	**5,212**
Of which - Total exposure to LDC countries	**78**	**899**	**795**

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, commercial credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Ireland, Italy, Greece and Spain.

	September 30, 2012									
	Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)			
	Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure(2)	
	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet commercial criticized exposure	impaired debts	Total off-balance sheet exposure	Of which off-balance sheet commercial criticized exposure	Due up to one year	Due over one year
	In NIS millions									
	29,250	18,323	10,927	16,347	731	204	8,200	-	4,724	696
	1,123	215	908	3,038	724	698	96	-	1,447	683
	-	-	-	22	1	1	12	-	13	9
	1,698	1,698	-	8,024	657	664	1,747	-	4,394	3,630
	32,071	**20,236**	**11,835**	**27,431**	**2,113**	**1,567**	**10,055**	**-**	**10,578**	**5,018**
	1,487	**1,487**	**-**	**1,961**	**21**	**29**	**250**	**-**	**917**	**1,044**

	December 31, 2012									
	Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)(6)			
	Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure(2)	
	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
	In NIS millions									
	29,543	18,992	10,551	15,384	887	191	8,341	6	4,162	671
	1,123	157	966	3,253	688	663	77	-	1,551	736
	-	-	-	20	1	1	12	-	9	11
	2,129	1,919	210	7,890	642	620	1,118	2	4,302	3,378
	32,795	**21,068**	**11,727**	**26,547**	**2,218**	**1,475**	**9,548**	**8**	**10,024**	**4,796**
	1,654	**1,654**	**-**	**1,772**	**33**	**31**	**251**	**-**	**1,087**	**685**

The item "Total LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Banking Management Directive No. 315 regarding "Additional allowance for doubtful debts".

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers, across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount)

SCHEDULE "C" – EXPOSURE TO FOREIGN COUNTRIES – CONSOLIDATED[1] (CONTINUED)

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of shareholders' equity, whichever is lower.

As of September 30, 2012 and December 31, 2012 the Bank had no such exposure.

C. Information regarding exposure to foreign countries having liquidity problems for the period of nine months ended September 30, 2012 and for the year ended December 31, 2012

1. Changes in the amount of balance sheet exposure to foreign countries having liquidity problems

	Outstanding balances	
	For the period of nine months ended September 30, 2012	For the year ended December 31, 2012
	Ireland	
	In NIS millions	
Amount of exposure at the beginning of year	29	29
Changes in remaining exposure:		
Amounts collected	(24)	(20)
Amount of exposure at period end	**5**	**9**

2. Information regarding balance-sheet exposures that have undergone restructuring

As of September 30, 2012 and December 31, 2012, the Bank had no such exposure.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED

	September 30, 2013								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	997	38	995	770	38	27	-	4	20
Industry	15,996	1,484	15,715	11,514	1,455	533	88	45	282
Construction and Real Estate - Construction	[7]13,659	684	13,640	5,789	684	380	15	15	184
Construction and Real Estate - Real Estate Activity	9,803	723	9,746	8,212	723	576	38	14	128
Electricity and Water	3,066	24	2,364	1,807	24	10	(2)	-	5
Commerce	14,259	969	14,053	11,376	969	201	136	19	279
Hotels, Hotel Services and Food	2,129	281	2,125	1,834	281	269	2	3	17
Transportation and Storage	3,202	86	3,097	2,543	77	39	6	7	23
Communication and Computer Services	2,441	367	2,298	1,729	363	116	(2)	(5)	39
Financial Services	9,276	326	7,471	5,940	325	178	(8)	(20)	172
Other Business Services	6,572	155	6,549	4,744	156	104	12	10	80
Public and Community Services	2,150	26	2,148	1,504	25	7	1	1	14
Commercial Total	**83,550**	**5,163**	**80,201**	**57,762**	**5,120**	**2,440**	**286**	**93**	**1,243**
Private Individuals - Housing Loans	20,883	521	20,883	19,949	521	-	40	1	264
Private Individuals - Other	38,576	357	38,548	18,249	357	98	3	39	345
Total Public	**143,009**	**6,041**	**139,632**	**95,960**	**5,998**	**2,538**	**329**	**133**	**1,852**
Banks in Israel	2,740	-	1,556	1,284	-	-	-	-	2
Israeli Government	30,376	-	2,196	1,797	-	-	-	-	-
Total Lending Activity in Israel	**176,125**	**6,041**	**143,384**	**99,041**	**5,998**	**2,538**	**329**	**133**	**1,854**
Lending Activity Outside of Israel									
Agriculture	262	-	262	222	-	-	1	-	3
Industry	7,371	339	7,339	4,488	339	271	8	-	106
Construction and Real Estate - Construction	1,121	512	1,113	1,070	512	510	7	55	104
Construction and Real Estate - Real Estate Activity	7,459	1,043	7,329	6,082	1,036	804	(17)	7	53
Electricity and Water	448	-	448	396	-	-	(1)	-	2
Commerce	5,791	157	5,788	3,973	157	157	60	98	72
Hotels, Hotel Services and Food	885	132	885	879	132	132	-	1	12
Transportation and Storage	842	48	841	725	48	48	19	-	40
Communication and Computer Services	183	25	182	124	25	25	11	-	13
Financial Services	14,045	[6]245	2,581	1,706	135	135	16	8	49
Of which: Federal agencies in the U.S. [8]	9,131	-	-	-	-	-	-	-	-
Other Business Services	1,910	78	1,893	1,304	78	26	9	30	30
Public and Community Services	[9]2,446	5	353	349	-	-	1	-	3
Commercial Total	**42,763**	**2,584**	**29,014**	**21,318**	**2,462**	**2,108**	**114**	**199**	**487**
Private Individuals - Housing Loans	54	1	54	53	1	-	-	-	-
Private Individuals - Other	2,055	21	2,024	1,353	21	14	15	7	22
Total Public	**44,872**	**2,606**	**31,092**	**22,724**	**2,484**	**2,122**	**129**	**206**	**509**
Banks Outside of Israel	9,683	18	5,701	5,456	-	-	(1)	-	2
Governments Outside of Israel	1,354	-	59	59	-	-	-	-	-
Total Lending Activity Outside of Israel	**55,909**	**2,624**	**36,852**	**28,239**	**2,484**	**2,122**	**128**	**206**	**511**
TOTAL	**232,034**	**8,665**	**180,236**	**127,280**	**8,482**	**4,660**	**457**	**339**	**2,365**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 127,280, 46,329, 312, 3,398, 54,715 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

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

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the period in arrears, and housing loans in respect of which no allowance is made according to the period in arrears, and are in arrears of 90 days or more.

(6) Includes problematic credit risk due to certain bonds issued by banking holding corporations (TRUPS), held by a subsidiary in an amount of NIS 110 million.

(7) Including acquisition groups in an amount of NIS 648 millions.

(8) Including mortgage backed securities in the amount of NIS 2,906 millions, issued by GNMA and in the amount of NIS 6,225 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and U.S. Government bonds.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	September 30, 2012								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]				Credit Losses[4]		
	Total	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Periodic Credit Loss Expenses[9]	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	1,103	38	1,090	880	37	30	(3)	2	17
Industry	17,894	1,093	17,557	12,158	1,060	640	114	79	244
Construction and Real Estate - Construction	[10][13]15,307	1,061	[13]15,278	[13]6,476	1,061	659	(7)	13	208
Construction and Real Estate - Real Estate Activity	9,275	570	9,199	8,104	533	477	(39)	44	95
Electricity and Water	2,471	18	2,113	1,245	18	-	8	-	9
Commerce	12,642	441	12,525	10,182	440	241	62	18	151
Hotels, Hotel Services and Food	2,066	322	2,065	1,803	322	308	(2)	2	16
Transportation and Storage	3,132	78	3,050	2,599	70	46	2	(2)	20
Communication and Computer Services	2,574	181	2,488	2,065	182	21	1	(1)	38
Financial Services	[13]9,845	657	[13]8,446	[13]6,737	600	442	168	87	116
Other Business Services	7,261	205	7,239	5,428	205	153	(9)	31	88
Public and Community Services	2,145	161	2,077	1,473	161	155	(1)	2	13
Commercial Total	**85,715**	**4,825**	**83,127**	**59,150**	**4,689**	**3,172**	**294**	**275**	**1,015**
Private Individuals - Housing Loans	[14]20,905	391	[14]20,871	19,851	391	-	(12)	5	213
Private Individuals - Other	[13]36,343	[11]545	[13]36,318	[13]17,249	[11]546	154	40	55	407
Total Public	**142,963**	**5,761**	**140,316**	**96,250**	**5,626**	**3,326**	**322**	**335**	**1,635**
Banks in Israel	3,338	-	1,770	1,451	-	-	-	-	-
Israeli Government	26,793	-	1,648	1,648	-	-	-	-	-
Total Lending Activity in Israel	**173,094**	**5,761**	**143,734**	**99,349**	**5,626**	**3,326**	**322**	**335**	**1,635**

For footnotes see next page:

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	September 30, 2012								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Periodic Credit Loss Expenses[9]	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity Outside of Israel									
Agriculture	373	8	374	208	9	9	6	-	11
Industry	7,811	288	7,770	5,039	288	7	32	(1)	88
Construction and Real Estate - Construction	1,513	649	1,513	1,440	649	648	58	4	152
Construction and Real Estate - Real Estate Activity	7,644	1,243	7,545	6,161	1,234	970	(5)	[13]20	63
Electricity and Water	331	-	331	272	-	-	-	[13]-	1
Commerce	7,377	446	7,354	4,714	410	285	21	4	100
Hotels, Hotel Services and Food	950	148	950	944	148	148	(8)	-	5
Transportation and Storage	1,036	54	1,036	583	54	53	1	-	20
Communication and Computer Services	187	-	186	114	-	-	1	-	2
Financial Services[8]	17,484	[7]510	3,389	2,037	32	31	(7)	24	37
Of which: Federal agencies in the U.S. [6]	12,321	-	-	-	-	-	-	-	-
Other Business Services	2,731	222	2,721	1,798	222	80	51	58	52
Public and Community Services[8]	[12]1,978	-	197	188	-	-	1	-	1
Commercial Total	**49,415**	**3,568**	**33,366**	**23,498**	**3,046**	**2,231**	**151**	**109**	**532**
Private Individuals - Housing Loans	[13]27	-	[13]27	[13]27	-	-	-	-	-
Private Individuals - Other	[13]1,939	10	[13]1,863	[13]1,267	11	9	-	1	17
Total Public	**51,381**	**3,578**	**35,256**	**24,792**	**3,057**	**2,240**	**151**	**110**	**549**
Banks Outside of Israel	7,261	152	4,013	3,822	-	-	1	-	5
Governments Outside of Israel	1,624	-	86	86	-	-	-	-	-
Total Lending Activity Outside of Israel	**60,266**	**3,730**	**39,355**	**28,700**	**3,057**	**2,240**	**152**	**110**	**554**
TOTAL	**233,360**	**9,491**	**183,089**	**128,049**	**8,683**	**5,566**	**474**	**445**	**2,189**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 128,049, 44,668, 678, 3,333, 56,632 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

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

(5) Balance sheet and off-balance sheet credit risk in, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the period in arrears, and housing loans in respect of which no allowance is made according to the period in arrears, and are in arrears of 90 days or more.

(6) Including mortgage backed securities in the amount of NIS 4,497 millions, issued by GNMA and in the amount of NIS 7,824 millions, issued by FNMA and FHLMC.

(7) Including problematic credit risk in respect of certain bonds of bank holding corporations (TRUPS), held by a subsidiary in the amount of NIS 440 million.

(8) Reclassified - bonds of U.S. government agencies, in the amount of NIS 12,321 million, were reclassified to the "Financial services" sector. Municipal bonds and bonds of States in the U.S., in the amount of NIS 1,781 million were reclassified to the "Public and community services" sector.

(9) Classification between sectors for the purpose of adjusting the presentation of the expense by economic sectors to the allowance data presented in Note 3.

(10) Includes acquisition groups in the amount of NIS 926 million.

(11) Reclassified in order to present the credit risk in respect of a certain debt as a problematic credit risk (following reclassification by an investee company).

(12) Including mainly municipal bonds and U.S. Government bonds.

(13) Reclassified - improving classification in different sectors.

(14) Reclassified, in order to include, guarantees and other liabilities on account of customers.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	December 31, 2012								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	1,145	91	1,142	919	91	28	9	5	25
Industry	16,187	811	15,913	11,236	790	583	192	154	244
Construction and Real Estate - Construction	(7)14,510	1,010	14,461	5,740	1,008	657	(29)	13	183
Construction and Real Estate - Real Estate Activity	(12)9,599	570	(12)9,530	8,106	541	496	2	46	103
Electricity and Water	2,981	17	2,401	1,598	17	-	5	-	6
Commerce	13,034	671	12,918	10,402	671	214	77	27	161
Hotels, Hotel Services and Food	2,077	318	2,077	1,808	317	301	1	4	18
Transportation and Storage	3,954	83	3,898	3,203	74	49	7	(1)	25
Communication and Computer Services	2,438	166	2,318	1,975	166	25	(3)	(3)	36
Financial Services	(12)10,794	758	(12)9,450	(12)7,698	671	422	244	130	159
Other Business Services	7,109	189	7,014	5,200	190	127	(4)	38	76
Public and Community Services	2,167	162	2,157	1,517	161	153	(1)	2	13
Commercial Total	**85,995**	**4,846**	**83,279**	**59,402**	**4,697**	**3,055**	**500**	**415**	**1,049**
Private Individuals - Housing Loans	20,672	(11)472	20,671	19,613	(11)472	-	-	5	225
Private Individuals - Other	(12)36,156	(13)406	(12)36,132	(12)17,472	(13)406	148	21	65	380
Total Public	**142,823**	**5,724**	**140,082**	**96,487**	**5,575**	**3,203**	**521**	**485**	**1,654**
Banks in Israel	3,109	-	1,577	1,267	-	-	-	-	-
Israeli Government	28,925	-	2,164	1,614	-	-	-	-	-
Total Lending Activity in Israel	**174,857**	**5,724**	**143,823**	**99,368**	**5,575**	**3,203**	**521**	**485**	**1,654**

For footnotes see next page.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	December 31, 2012								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity Outside of Israel									
Agriculture	340	-	340	191	-	-	(2)	-	3
Industry	[12]7,454	352	[12]7,418	4,110	351	289	48	(1)	102
Construction and Real Estate - Construction	1,344	578	1,344	1,292	578	577	42	4	146
Construction and Real Estate - Real Estate Activity	7,669	1,179	7,517	6,160	1,172	936	18	52	86
Electricity and Water	469	-	469	306	-	-	3	-	3
Commerce	6,657	355	6,649	4,344	355	267	46	17	110
Hotels, Hotel Services and Food	849	140	849	822	140	140	10	-	13
Transportation and Storage	998	51	998	722	51	51	2	-	22
Communication and Computer Services	179	-	178	108	-	-	1	-	2
Financial Services[10]	15,820	[6]358	3,042	1,846	50	29	12	24	44
Of which: Federal agencies in the U.S. [8]	10,750	-	-	-	-	-	-	-	-
Other Business Services	2,454	204	2,452	1,769	204	85	24	29	54
Public and Community Services[10]	[9]2,158	-	267	260	-	-	1	-	2
Commercial Total	**46,391**	**3,217**	**31,523**	**21,930**	**2,901**	**2,374**	**205**	**125**	**587**
Private Individuals - Housing Loans	53	1	53	52	1	-	-	-	-
Private Individuals - Other	1,805	15	1,789	1,227	15	7	(1)	-	15
Total Public	**48,249**	**3,233**	**33,365**	**23,209**	**2,917**	**2,381**	**204**	**125**	**602**
Banks Outside of Israel	10,177	85	6,879	6,711	-	-	1	-	5
Governments Outside of Israel	1,421	-	82	82	-	-	-	-	-
Total Lending Activity Outside of Israel	**59,847**	**3,318**	**40,326**	**30,002**	**2,917**	**2,381**	**205**	**125**	**607**
TOTAL	**234,704**	**9,042**	**184,149**	**129,370**	**8,492**	**5,584**	**726**	**610**	**2,261**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 129,370, 45,294, 387, 3,596, 56,057 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

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

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the period in arrears, and housing loans in respect of which no allowance is made according to the period in arrears, and are in arrears of 90 days or more.

(6) Includes problematic credit risk due to certain bonds issued by banking holding corporations, held by a subsidiary in an amount of NIS 271 million.

(7) Including acquisition groups in an amount of NIS 812 million.

(8) Including mortgage backed securities in the amount of NIS 3,922 millions, issued by GNMA and in the amount of NIS 6,828 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and U.S. Government bonds.

(10) Reclassified - bonds of U.S. government agencies, in the amount of NIS 10,750 million, were reclassified from the "Public and community services" sector to the "Financial services" sector.

(11) Reclassified as a result of improvements in the classification of housing loans.

(12) Reclassified - improving classification in different sectors.

(13) Reclassified in order to present the credit risk in respect of a certain debt as a problematic credit risk (following reclassification by an investee company).

CERTIFICATION

I, Reuven Spiegel, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of September 30, 2013 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) 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 such evaluation;
   (d) 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. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design 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 or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Reuven Spiegel,
President & Chief Executive Officer

November 27, 2013

CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of September 30, 2013 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) 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 such evaluation;
   (d) 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. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design 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 or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Joseph Beressi
Senior Executive Vice President
Chief Accountant

November 27, 2013

Somekh Chaikin

REVIEW REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD.

INTRODUCTION

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at September 30, 2013 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three months periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for these interim periods in accordance with Israeli GAAP regarding financial reporting for these interim periods and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

SCOPE OF REVIEW

We have 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 guidelines 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, 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 Israeli GAAP regarding financial reporting for interim periods and in accordance with the instructions and directives of the Supervisor of Banks.

EMPHASIS OF A MATTER

Without qualifying our above conclusion, we call attention to the Note 7 B items 4.2 and 5 concerning motion to approve certain lawsuits as class action suits and with regard to other claims against the Bank and investee companies and item 6 as regards to the Antitrust Commissioner's decision.

Somekh Chaikin	Ziv Haft
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)
November 27, 2013	

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited		Audited
	Note	September 30, 2013	September 30, 2012	December 31, 2012
		in NIS millions		
Assets				
Cash and deposits with banks		22,758	27,544	24,100
Securities (of which 6,226, 6,062, 6,043 respectively, pledged to lenders)	2	47,124	45,334	46,001
Securities borrowed or purchased under resale agreements		312	678	387
Credit to the public	3	118,684	121,042	119,696
Allowance for credit losses	3	(2,186)	(2,002)	(2,085)
Credit to the public, net		116,498	119,040	117,611
Credit to Governments		1,856	1,734	1,696
Investments in affiliated companies		1,822	1,622	1,724
Buildings and equipment		2,762	2,970	2,962
Intangible assets and goodwill		142	145	142
Assets in respect of derivative instruments	8	3,392	3,254	(2)3,727
Other assets		3,349	2,913	2,662
Noncurrent assets held for sale		10	6	-
Total assets		**200,025**	**205,240**	**201,012**
Liabilities and Equity				
Deposits from the public	4	152,111	154,688	151,935
Deposits from banks		3,833	5,412	3,720
Deposits from the Government		1,019	1,059	1,005
Securities loaned or sold under repurchase agreements		4,227	5,752	5,452
Subordinated capital notes		12,089	12,422	12,284
Liabilities in respect of derivative instruments	8	4,381	4,005	(2)4,708
Other liabilities (1)		9,834	9,959	9,774
Total liabilities		187,494	193,297	188,878
Equity attributed to the Bank's shareholders		12,228	11,613	11,838
Non-controlling rights in consolidated companies		303	330	296
Total equity		12,531	11,943	12,134
Total Liabilities and Equity		**200,025**	**205,240**	**201,012**

Footnotes:

(1) Of which NIS 175 million, NIS 182 million and NIS 171 million, as of September 30, 2013, September 30, 2012 and December 31, 2012, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

(2) Reclassified, see note 1 E 2.

The notes to the condensed financial statements form an integral part thereof.

November 27, 2013	Joseph Beressi Senior Executive Vice President, Chief Accountant	Reuven Spiegel President & Chief Executive Officer	Dr. Yossi Bachar Chairman of the Board of Directors

CONDENSED CONSOLIDATED STATEMENT OF INCOME

		Unaudited				Audited
		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	Notes	2013	2012	2013	2012	2012
		in NIS millions				
Interest income		1,865	2,076	5,291	(1)6,210	(1)7,847
Interest expenses		771	934	2,112	(1)2,817	(1)3,388
Interest income, net	10	1,094	1,142	3,179	3,393	4,459
Credit loss expenses	3a	171	233	457	474	726
Net interest income after credit loss expenses		**923**	**909**	**2,722**	**2,919**	**3,733**
Non-interest Income						
Non-interest financing income	11	90	(1)94	516	(1)293	352
Commissions		684	(1)693	2,020	(1)2,025	2,685
Other income		65	(1)73	122	(1)155	220
Total non-interest income		**839**	**860**	**2,658**	**2,473**	**3,257**
Operating and other Expenses						
Salaries and related expenses		889	(1)882	2,698	(1)2,659	3,444
Maintenance and depreciation of buildings and equipment		321	(1)309	931	(1)928	(1)1,248
Amortization of intangible assets		-	3	-	8	10
Other expenses		275	(1)300	832	(1)852	(1)1,124
Total operating and other expenses		**1,485**	**1,494**	**4,461**	**4,447**	**5,826**
Income before taxes		277	275	919	945	1,164
Provision for taxes on income		47	78	254	300	407
Income after taxes		230	197	665	645	757
Bank's share in income of affiliated companies, net of tax effect		56	39	166	33	104
Net income:						
Before attribution to non-controlling rights holders in consolidated companies		286	236	831	678	861
Attributed to the non-controlling rights holders in consolidated companies		(10)	(15)	(29)	(45)	(59)
Net income attributed to Bank's shareholders		**276**	**221**	**802**	**633**	**802**
Earnings per share of NIS 0.1 par value (in NIS)						
Total earnings per share attributed to Bank's shareholders		**0.26**	**0.21**	**0.76**	**0.60**	**0.76**

Footnote:

(1) Reclassified, see Note 1 D 2.

The notes to the financial statements form an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [(1)]

	Unaudited				Audited
	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2013	2012	2013	2012	2012
	in NIS millions				
Net income before attribution to non-controlling rights holders in consolidated companies	286	236	831	678	861
Net income attributed to non-controlling rights holders in consolidated companies	(10)	(15)	(29)	(45)	(59)
Net income attributed to the Bank's shareholders	**276**	**221**	**802**	**633**	**802**
Other comprehensive income (loss), before taxes:					
Adjustments, net, for presentation of available-for- sale securities at fair value	39	154	(404)	344	673
Financial statements translation adjustments, net after hedge effects	(71)	(9)	(168)	68	(77)
Net income (loss) in respect of cash flows hedge	-	(2)	6	(6)	(3)
Other comprehensive income (loss), before taxes:	**(32)**	**143**	**(566)**	**406**	**593**
Effect of attributed taxes	(7)	(58)	154	(128)	(259)
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**(39)**	**85**	**(412)**	**278**	**334**
Comprehensive income, before attribution to non-controlling interests holders in consolidated companies	247	321	419	956	1,195
Comprehensive income, attributed to non-controlling interests holders in consolidated companies	(10)	(15)	(29)	(45)	(59)
Comprehensive income, attributed to the Bank's shareholders	**237**	**306**	**390**	**911**	**1,136**

Footnote:

(1) See Note 13.

The notes to the financial statements form an integral part thereof.

CONDENSED STATEMENT OF CHANGES IN EQUITY[1]

A. For the three months ended September 30 2013 and 2012 (unaudited)
Balance at June 30, 2013
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive loss after tax effect
Balance at September 30, 2013
Balance at June 30, 2012
Net Income for the period
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive income after tax effect
Balance at September 30, 2012
B. For the nine months ended September 30 2013 and 2012 (unaudited)
Balance at December 31, 2012 (audited)
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive loss after tax effect
Balance at September 30, 2013
Balance at December 31, 2011 (audited)
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Option expiration[3]
Other comprehensive income after tax effect
Balance at September 30, 2012
C. For the year of 2012 (audited)
Balance at December 31, 2011
Net income for the year
Dividend to non-controlling interests holders in consolidated companies
Option expiration[3]
Other comprehensive income after tax effect
Balance at December 31, 2012

Footnotes:

(1) For details regarding the change in the format of the statement, see Note 1 E 1.

(2) Including an amount of NIS 2,704 million that is not available for distribution.

(3) In respect of 326,880 option warrants expired in period ended on September 30, 2012 (1,438,272 option warrants expired in 2012)

The notes to the financial statements are an integral part thereof.

Share capital	Capital reserves: Share premium	Capital reserves: Benefit in respect of share based payment transactions	Capital reserves: Other	Total share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings[2]	Equity attributed to the Bank's shareholders	Non-controlling interests holders in consolidated subsidiaries	Total equity
in NIS millions									
665	3,434	-	212	4,311	(49)	7,729	11,991	300	12,291
-	-	-	-	-	-	276	276	10	286
-	-	-	-	-	-	-	-	(7)	(7)
-	-	-	-	-	(39)	-	(39)	-	(39)
665	**3,434**	**-**	**212**	**4,311**	**(88)**	**8,005**	**12,228**	**303**	**12,531**
665	3,429	5	212	4,311	183	6,813	11,307	326	11,633
-	-	-	-	-	-	221	221	15	236
-	-	-	-	-	-	-	-	(11)	(11)
-	-	-	-	-	85	-	85	-	85
665	**3,429**	**5**	**212**	**4,311**	**268**	**7,034**	**11,613**	**330**	**11,943**
665	3,434	-	212	4,311	324	7,203	11,838	296	12,134
-	-	-	-	-	-	802	802	29	831
-	-	-	-	-	-	-	-	(22)	(22)
-	-	-	-	-	(412)	-	(412)	-	(412)
665	**3,434**	**-**	**212**	**4,311**	**(88)**	**8,005**	**12,228**	**303**	**12,531**
665	3,428	6	212	4,311	(10)	6,401	10,702	319	11,021
-	-	-	-	-	-	633	633	45	678
-	-	-	-	-	-	-	-	(34)	(34)
-	1	(1)	-	-	-	-	-	-	-
-	-	-	-	-	278	-	278	-	278
665	**3,429**	**5**	**212**	**4,311**	**268**	**7,034**	**11,613**	**330**	**11,943**
665	3,428	6	212	4,311	(10)	6,401	10,702	319	11,021
-	-	-	-	-	-	802	802	59	861
-	-	-	-	-	-	-	-	(82)	(82)
-	6	(6)	-	-	-	-	-	-	-
-	-	-	-	-	334	-	334	-	334
665	**3,434**	**-**	**212**	**4,311**	**324**	**7,203**	**11,838**	**296**	**12,134**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended
	2013	2012	2013	2012	31.12.12
	in NIS millions				
Cash Flows from Operating Activities					
Net profit before attribution to non-controlling rights holders in consolidated companies	286	236	831	678	861
Adjustments necessary to present cash flows from current operations:					
Bank's share in undistributed income of affiliated companies	(41)	(45)	(121)	(121)	(202)
Depreciation of buildings and equipment (including impairment in value)	149	153	446	(3)438	(3)590
Amortization of intangible assets	-	3	-	8	10
Provision for impairment of securities held for investment	3	2	11	28	28
Credit loss expenses	295	341	822	818	1,167
Gain on sale of available-for-sale and held - to - maturity securities	(76)	(117)	(450)	(301)	(399)
Realized and non realized gain (loss) from adjustment to fair value of trading securities	4	-	(12)	(7)	(32)
Provision for impairment of affiliated company(1)	-	-	-	113	113
Gain from realization of an investment in investee companies	-	-	(8)	-	-
Gain on sale of buildings and equipment	-	(6)	-	(1)	(27)
Net deferred taxes	(30)	50	(146)	16	44
Severance pay – increase in execess of provision over the deposits	(12)	(29)	35	55	7
Net change in current assets:					
Deposits with banks	(109)	221	29	1,199	587
Credit to the public, net	(1,673)	(4)(425)	738	(4)(3,668)	(4)(2,052)
Loss (gain) on sale of credit portfolio	(1)	-	(12)	(4)1	(4)1
Credit to the Government	(32)	(31)	(160)	(94)	(56)
securities borrowed or purchased under resale agreements	(243)	(255)	75	(533)	(242)
Assets in respect of derivative instruments	211	151	335	(140)	(2)(484)
Trading securities	1,153	162	103	1,315	(300)
Other assets	(100)	78	(383)	200	202
Effect of changes in exchange rate on cash and cash equivalent balances	(27)	(3)	(133)	73	(44)
Accrual differences included in investment and financing activities	436	788	1,169	(43)	517
Net change in current liabilities:					
Deposits from banks	(320)	1,060	113	1,163	(529)
Deposits from the public	2,174	3,967	(752)	1,498	(1,528)
Deposits from the Government	15	29	14	134	80
securities borrowed or purchased under resale agreements	69	(116)	(1,225)	(949)	(1,248)
Liabilities in respect of derivative instruments	(209)	(368)	(322)	(427)	(2)143
Other liabilities	327	(153)	-	244	(5)217
Adjustments in respect of exchange rate differences on current assets and liabilitiest	(42)	(32)	(53)	28	10
Net Cash Flows from Operating Activities	**2,207**	**5,661**	**944**	**1,725**	**(2,566)**

Footnotes:
(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14 D.
(2) Reclassified, see note 1 E 2.
(3) Reclassified - reclassification of amount which in the past were presented as part of the item "Provision (reversal of provision) for impairment of buildings and equipment" to the item "Depreciation of buildings and equipment (including impairment)".
(4) Reclassified – sorting of the mount relating to a sale of a credit portfolio out of the changes in credit to the public.
(5) Reclassified - The separate presentation of non-cash purchase of fixed assets.
The notes to the condensed financial statements are an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended
	2013	2012	2013	2012	31.12.12
	in NIS millions				
Cash Flows from Investing Activities					
Acquisition of held-to-maturity bonds	-	(89)	(1,162)	(1,614)	(1,788)
Proceeds from redemption of held-to-maturity bonds	82	164	513	840	976
Acquisition of available-for-sale securities	(2,885)	(6,239)	(17,755)	(18,501)	(23,826)
Proceeds from sale of available-for-sale securities	1,636	4,063	9,960	11,583	15,157
Gain on sale of credit portfolio	434	2	547	(2)55	(2)63
Proceeds from redemption of available-for-sale securities	1,623	2,004	6,344	4,826	7,107
Reduction of (additional) investment in an activity in an investee company	-	-	(31)	-	1
Proceeds of the sale of investments in investee companies and dividend	-	-	53	-	-
Acquisition of buildings and equipment	(72)	(97)	(258)	(333)	(2)(492)
Proceeds from sale of buildings and equipment	-	8	-	15	54
Net Cash Flows from Investing Activities	**818**	**(184)**	**(1,789)**	**(3,129)**	**(2,748)**
Cash Flows from Financing Activities					
Issuance of subordinated capital notes	-	-	-	440	440
Redemption of subordinated capital notes	(152)	(183)	(468)	(551)	(647)
Dividend to non-controlling rights holders in consolidated companies	(7)	(11)	(22)	(34)	(82)
Net cash flows from Financing Activities	**(159)**	**(194)**	**(490)**	**(145)**	**(289)**
Decrease in cash	2,866	5,283	(1,335)	(1,549)	(5,603)
Cash balance at beginning of period	18,086	21,013	22,265	27,910	27,910
Effect of changes in exchange rate on cash and cash equivalent balances	1	28	23	(37)	(42)
Cash balance at end of period	**20,953**	**26,324**	**20,953**	**26,324**	**22,265**
Interest and taxas paid and/or received					
Interest received	1,542	(2)1,942	5,225	6,165	7,457
Interest paid	(588)	(714)	(2,068)	(2,544)	(3,554)
Dividends received	12	(1)2	74	(1)13	(1)19
Taxes on income paid	(117)	(126)	(392)	(360)	(519)

Annex - investing and financial activities not in cash in the reviewed period

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended
	2013	2012	2013	2012	31.12.12
	in NIS millions				
Purchase of fixed assets	12	1	7	10	(3)12
Lending of securities	(696)	(387)	(964)	(137)	240

Footnotes:

(1) Reclassified - setoff of intercompany balances and which includes a dividend received by a consolidated company.

(2) Reclassified – sorting of the mount relating to a sale of a credit portfolio out of the changes in credit to the public.

(3) Reclassified – The separate presentation of non-cash purchase of fixed assets.

The notes to the condensed financial statements are an integral part thereof.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A. GENERAL. Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of September 30, 2013, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in investee companies. The interim financial statements are prepared in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with directives and guidelines of the Supervisor of Banks with respect to the "quarterly report of a banking corporation", and they do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2012 and the accompanying notes.

The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2012 except as detailed in item E hereunder.

The interim financial statements were approved for publication by the Bank's Board of Directors on November 27, 2013.

B. PRINCIPLES OF FINANCIAL REPORTING

The interim financial statements have been prepared according to the following principles:

- Issues within the core banking business - in accordance with the directives and guidelines of the Supervisor of Banks and in accordance with generally accepted accounting principles applying to banks in the United States that had been adopted within the framework of the public reporting directives of the Supervisor of Banks;
- Issues outside the core banking business - in accordance with generally accepted accounting principles in Israel and in accordance with certain International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) relating thereto, all according to the directives and guidelines of the Supervisor of Banks on such matters.

The international standards are being applied in accordance with the principles detailed in the financial statements as of December 31, 2012.

C. USE OF ASSESSMENTS AND DISCRETION

In preparing the interim financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments.

Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

D. RECLASSIFICATION

Following the initial implementation of certain accounting standards and directives of the Supervisor of Banks (see Section E below), certain items have been reclassified in order to adjust the comparative data to the headings of the items and to reporting requirements in the current period. In particular, the following have been reclassified:

1. **Presentation of other comprehensive income items.** Following the initial implementation of the instructions of the Supervisor of Banks in this matter (see item E 1 below), the other comprehensive income items in the financial statements for the periods of nine and three months ended on September 30, 2012 and in the financial statements for the year ended December 31, 2012, have been reclassified so that they are not separately presented in the statement of changes in shareholders' equity but are reported in a total amount, the details thereof are given in a separate report under the name of "Condensed consolidated statement of comprehensive income", which is presented immediately after the statement of income.
2. **Reclassifications in the statement of income:** (1) Reclassified on the background of the implementation of the instructions of the Supervisor of Banks regarding the new format for the statement of income, following the publication of a clarification regarding the treatment of MAOF options; (2) Certain adjustments required on the background of the implementation of the new format of Schedule "A" to the Management Review; (3) Adjustment of the manner of recording the profits of the severance pay fund of a subsidiary to that of the Bank; (4) Classification of certain expense items from the item "Other expenses" to the item "Maintenance and depreciation of buildings and equipment".

1. ACCOUNTING POLICIES (CONTINUED)

E. INITIAL IMPLEMENTATION OF ACCOUNTING STANDARDS, UPDATES OF ACCOUNTING STANDARDS AND DIRECTIVES OF THE SUPERVISOR OF BANKS

As from periods beginning January 1, 2013, the Bank implements accounting standards and directives as detailed hereunder:

(1) Instruction in the matter of "Statement of comprehensive income" (see item 1 below);

(2) Instruction in the matter of "Setoff of assets and liabilities" (see item 2 below);

(3) Instruction in the matter of "Disclosure of deposits" (see item 3 below);

(4) Disclosures in accordance with instructions of the Supervisor of Banks regarding the update of disclosure of the credit quality of debts and of the allowance for credit losses, which has to be initially implemented as from January 1, 2013 (see item 4 below);

(5) A new set of International Financial Reporting Standards (IFRS) in the matter of consolidation of financial statements and related issues (see item 5 below).

As from the period beginning on April 1, 2013, the Bank implements the following Directive:

(1) Directive of the Supervisor of Banks regarding "Update of guidelines in the matter of housing real estate" (see item 6 below).

Following is a description of the changes in the accounting policy adopted in these interim financial statements and a description of the manner and effect of the initial implementation, if at all:

1. Instruction in the matter of the statement of comprehensive income. The Supervisor of Banks issued on December 9, 2012, a circular for the amendment of the Public Reporting Directives regarding the issue of "Statement of comprehensive income". The circular is intended to modify the presentation of the statement of comprehensive income to the requirements of the updated U.S. GAAP (ASU 2011-05 and ASU 2011-12) and to the presentation format of the comprehensive income statement as accepted in financial statements of U.S. banks. According to the circular, the items of other comprehensive income shall be presented in a separate statement named "statement of comprehensive income", which shall be presented immediately after the statement of income. Furthermore, the movement in the statement of changes in shareholders' equity in respect of items included in "accumulated other comprehensive income" shall be presented in one amount, while the details and composition of the movement in "accumulated other comprehensive income" shall be presented in a new note on accumulated other comprehensive income (see note 13 hereunder).

The initial implementation and its effect. The directives will be implemented as from January 1, 2013, by way of retroactive implementation. The initial implementation of the directive had no effect, except for a change in presentation. For details as to the reclassification resulting from the implementation of the directives, see subsection D 1 above.

2. Instruction in the matter of the setoff of assets and liabilities. The Supervisor of Banks issued on December 12, 2012, a circular for the amendment of the Public Reporting Directives regarding the issue of "offsetting of assets and liabilities". The circular is intended to modify the Public Reporting Directives in this respect to the U.S. GAAP.

According to the circular regarding the offsetting of derivative instruments, a banking corporation shall offset assets and liabilities deriving from the same counterparty and shall present in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the banking corporation and the counterparty owe to one another determinable amounts.

Furthermore, under certain conditions, the banking corporation may be entitled to offset fair value amounts recognized in respect of derivative instruments and fair value amounts recognized in respect of the right to reclaim cash collateral (receivables) or in respect of the obligation to return cash collateral (payables) arising from derivative instruments executed with the same counterparty in accordance with a master netting arrangement, even where the condition regarding the intention to settle on a net basis or simultaneously does not exist. A banking corporation is required to adopt an accounting policy to be applied consistently with respect to the setoff of fair value amounts, as above.

With respect to repurchase transactions, a banking corporation is entitled to offset "securities purchased under repurchase agreements" against "securities sold under repurchase agreements" if certain conditions set out in this respect in U.S. GAAP, exist.

1. ACCOUNTING POLICIES (CONTINUED)

Initial implementation and its effect. The Bank implements the provisions of the instruction by way of retroactive implementation. However, the new disclosure requirements have not been implemented with respect to the comparative data applying to the interim periods of 2012, since, according to the circular letter, implementation of these provisions with respect to the said comparative periods is not mandatory. The said initial implementation had no material impact upon the Bank's financial statements, except for the update of the disclosure format in Note 8 regarding derivative instruments activity – volume, credit risk and due dates, as required by the instruction.

On the background of the new instruction and following its initial implementation, the Bank has decided to discontinue the offsetting of exposure in respect of derivative instruments in the balance sheet. In the comparative data as of December 31, 2012, setoffs made in the past in immaterial amounts, have been cancelled.

3. **Instruction in the matter of disclosure of deposits.** A circular was published on January 13, 2013, amending the Public Reporting Instructions of the Supervisor of Banks in the matter of disclosure of deposits. The circular is intended to match the disclosure requirements regarding deposits to the disclosure requirements which are in practice in financial statements of U.S. banking corporations.

In accordance with the circular letter, disclosure requirements regarding deposits have been updated, introducing new disclosure, among other things, regarding deposits by institutional bodies, deposits bearing interest and non-interest bearing deposits, time deposits and on-call deposits, division of deposits by different parameters, among other things, according to size, distinguishing between deposits raised in Israel and those raised abroad.

Initial implementation and its effect. The interim financial statements include disclosure regarding the balance of deposits made by institutional bodies included in deposits from the public raised in Israel. The remaining new disclosure requirements determined in the circular apply as from the annual report for 2013 and thereafter.

The Bank implemented the provisions of the instruction by way of retroactive implementation. Notwithstanding, at this stage, no disclosure is made of the comparative data as of the end of each quarter in 2012, relating to the balance of deposits, as stated, as permitted according to the instruction.

4. **Initial implementation of the instructions of the Supervisor of Banks in the matter of updating the disclosure of credit quality of debts and of the allowance for credit losses.** The Bank implements the instructions of the Supervisor of Banks in the matter of "updating the disclosure of credit quality of debts and of the allowance for credit losses, adopting the update of accounting standard ASU 2010-20", which requires wider disclosure regarding the balances of debts, movement in the balance of the allowance for credit losses, any material acquisition and sale of debts during the reported period and disclosure regarding the quality of credit.

Among other things, a banking corporation is required to provide quantitative disclosure regarding indication of credit quality, at least with respect to the balance of problematic debts in each group of debts. In addition, disclosure will be given with respect to the credit quality of housing loans. The new disclosure is required with respect to each of the credit segments (such as: commercial credit, private individuals – housing loans, private individuals – other, banks and governments) as well as with respect to each of the principal groups of debts as defined by the instruction, distinguishing between borrower activity in Israel and borrower activity abroad, if material.

Starting with the financial statements for March 31, 2013, disclosure is initially required regarding restructured debts under troubled debt restructuring during the reported period, the number of contracts and the recorded amount before and after restructuring. Also with respect to failure of restructured debts during the reported period, disclosure is required as to the number of contracts and the recorded amount. The said disclosure is required for each of the credit segments as detailed above.

The initial implementation and its effect. The Bank implements the instructions by way of "from now onwards" starting with January 1, 2013. In respect of balance sheet data initially required according to this instruction, the Bank reclassified, to the extent possible, the comparative data. Certain of the new disclosure requirements regarding a troubled debt restructuring are being implemented by the Bank since January 1, 2013. It is not required to present comparative data for interim periods in 2012 in respect of the said new disclosure.

The initial implementation of the instructions had no impact, except for the updating of the disclosure format in Note 3 "Credit risk, credit to the public and allowance for credit losses".

1. ACCOUNTING POLICIES (CONTINUED)

5. **A new set of International Financial Reporting Standards (IFRS) in the matter of consolidation of financial statements and related issues.** The IASB published in May 2011 a series of new standards being part of joint union of the FASB and the IASB project, which is intended to replace the existing standards regarding the consolidation of financial statements and joint ventures, and includes also certain changes regarding affiliated companies. A circular of the Supervisor of Banks dated December 12, 2012, in the matter of "Adoption of certain international reporting standards (IFRS) in the public reporting instructions", stated the manner in which banking corporations are to apply the standards included in the new system.

   Following is a description of the principal issues of the rules included in the new system:

   5.1 International financial reporting standard IFRS 10 in the matter of "consolidated financial statements". The Standard presents a new control model to be used in determining whether an investee entity has to be consolidated. In accordance with the Standard, "de facto" circumstances have to be taken into account in evaluating the existence of control, so that the existence of effective control over the investee will require consolidation of the financial statements. Furthermore, in evaluating the existence of control, all significant potential voting rights shall be taken into account and not only potential voting rights that may be exercised immediately.

   In accordance with the guidelines of the Supervisor of Banks, as stated, banking corporations shall apply IFRS 10, except for the rules relating to the treatment of entities having variable interests (VIE's), which will continue to be treated according to the provisions of ASC 810 (FAS 167). It has also been clarified that at this stage, IAS 27 (as amended) shall not be adopted in the public reporting instructions.

   5.2 International financial reporting standard IFRS 11 in the matter of "Joint arrangements" and amendment to IAS 28 in the matter of "Investments in associates companies and in joint ventures". The Standard classifies "joint arrangements" as "joint operations" or "joint ventures" based on the rights and liabilities of the parties to the arrangement. Joint ventures shall be treated by the equity method of accounting only (the option of applying proportionate consolidation has been abolished).

   In addition, it was determined that IFRS 5 shall apply to an investment or part thereof that corresponds with the criteria for the classification as an investment held for sale.

   In accordance with the guidelines of the Supervisor of Banks, as stated, banking corporations shall implement the provisions of IFRS 11 and IAS 28 (as amended).

   5.3 International financial reporting standard IFRS 12 in the matter of "Disclosure of interests in other entities". The Standard includes comprehensive disclosure requirements with respect to interests in subsidiary companies, joint arrangements, associates and structured entities which are not consolidated.

   In accordance with the guidelines of the Supervisor of Banks, as stated, banking corporations shall implement the provisions of IFRS 12, except for the disclosure requirements included therein with respect to structured entities that are not consolidated. The disclosure requirements stated in FAS 167 shall continue to apply to the said entities, as incorporated in item 22 to the Public Reporting Instructions regarding disclosure of entities having variable interests.

   The initial implementation and its effect. The Bank implements the set of standards as from January 1, 2013, by way of retroactive implementation (with the exception of certain relief as stated in the transitional instructions). The implementation of the set of standards had no material effect upon the Bank's financial statements.

6. **“Update of Guidelines Regarding Residential Real Estate”.** On March 21, 2013, the Supervisor of Banks published a directive that astringents the rules for the measurement of credit risk in the housing loans field, including retaining an allowance for credit losses calculated on a group basis, which is maintained with respect to housing loans, at a rate of no less than 0.35% of the gross loans. (The aforesaid does not apply to housing loans for which an allowance is maintained according to the period in arrears or where the allowance is calculated on a specific basis).

   The initial implementation and its effect. As from April 1, 2013, the Bank implemented the guidelines stated in the instruction by way of "from now onwards". The implementation of the instruction increased the group allowance of the Bank and of Mercantile Discount Bank for the first half of 2013, by an amount of approx. NIS 26 million.

1. ACCOUNTING POLICIES (CONTINUED)

F. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

1. **Instructions regarding the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income.** Instructions were issued on December 29, 2011, intended to modify the public reporting instructions for the purpose of adoption of the rules determined within the framework of generally accepted accounting principles in the U.S. regarding "non-refundable commissions and other costs". The instruction determines rules for the treatment of commissions earned on the setting-up of loans and of direct costs incurred in the setting-up of loans. The qualified commissions and costs in accordance with criteria determined in the instruction shall not be immediately recognized in the statement of income but will be taken into account in computing the effective interest rate on the loan. In addition, the instruction changes the treatment of commissions and costs related to commitments to grant credit, including credit card transactions.

   Furthermore, the instruction determines rules for the treatment of changes in the terms of debts that do not constitute troubled debt restructurings, for the treatment of early repayment of debts as well as the treatment of other transactions for the granting of credit, such as syndication transactions. The Supervision of Banks clarified that it will allow a parallel deferral of expenses, only if certain conditions are met (the implementation of which entails operational difficulty) and after obtaining the advance approval of the Banking Supervision Department.

   A circular letter dated July 25, 2012, stated that the instructions in this respect shall be implemented as from January 1, 2014, and thereafter. An update of the transitional instructions regarding the implementation of the directives was published by the Supervisor of Banks on October 24, 2013.

   The Advisory Board received for discussion on August 19, 2013, a draft of the question and answers file in the matter of non-reimbursable commissions and other costs, which determine the manner of the initial implementation of Standard FAS 91. Among other things, the implementation by way of "from now onwards" of transactions made or renewed as from January 1, 2014 and thereafter, as well as the continued spreading of early redemption commissions.

   On October 24, 2013, the Supervisor of Banks issued a circular in the matter of "Update of transitional provisions regarding the measurement of interest income". The circular determines reliefs as regards changes in terms of loans, which are not treated as a troubled debt restructuring, the treatment of credit allocation commissions as well as early repayment commission. The said reliefs have been determined as transitional provisions for the year 2014 only.

   In the opinion of the Bank, the implementation of the Directive will have an adverse effect in the first years of its implementation, however it is not possible at this stage to evaluate the materiality of the effect.

2. **Accounting Standard No. 29.** The Israel Accounting Standards Board published in July 2006, Accounting Standard No. 29 "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter: "the Standard"). The Standard is not applicable to corporations, whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks.

   In June 2009, the Supervisor of Banks issued a circular in the matter of "Reporting by banking corporations and credit card companies in accordance with International Financial Reporting Standards (IFRS)", which determines the expected manner according to which the IFRS will be adopted by banking corporations and credit card companies in Israel.

   According to the circular, the targeted date for the reporting by banks and credit card companies in accordance with the IFRS rules, are:

   - As regards issues which form part of the core banking business - the Supervisor of Bank has declared his intention to arrive at a final decision in the matter, will take into consideration the time table that will be provided in the United States and the progress to be made in the convergence process of the international and the U.S. accounting standards boards.
   - As regards issues which are not part of the core banking business - as from January 1, 2011. This, except for several standards implemented as from January 1, 2012 and except for IAS 19 regarding "Employee benefits", which has not yet become effective and which will be adopted in accordance with guidelines of the Supervisor of Banks, when published, with respect to the timing and manner of initial implementation.

3. **Reporting amounts that had been reclassified out of accumulated other comprehensive income.** A circular in this matter was published on October 3, 2013, which amends the public reporting instructions. The amendments are intended to modify the disclosure requirements regarding amounts that had been reclassified out of accumulated other comprehensive income to the updated requirements and to the accepted manner of disclosure respecting amounts as above, in financial statements of U.S. banking corporations.

1. ACCOUNTING POLICIES (CONTINUED)

The principal changes in the instructions are:

- A new disclosure requirement has been added to the note on accumulated other comprehensive income (loss) regarding the items in the statement of income, which include the amounts reclassified from accumulated other comprehensive income to the statement of income;
- A footnote was added to the note on non-interest financing income explaining which of the items in the note had been reclassified from accumulated other comprehensive income.

The instructions included in the circular are to be retroactively applied as from the report for the first quarter of 2014. Implementation of these instructions is not expected to have a material effect.

4. **Assets and liabilities according to linkage terms and maturity periods.** A letter in this matter amending the public reporting instructions was published on October 3, 2013.

The principal changes to the instructions are:

- Instead of the presentation according to currency base or linkage to the CPI and the differentiation between domestic and overseas foreign currency operations, a banking corporation is required to present cash flows in respect of assets and liabilities differentiating between those in Israeli currency (including Israeli currency linked to foreign currency) and those in foreign currency;
- Reporting cash flows in respect of derivative instruments settled net in accordance with Section 22.B.d(1) of the public reporting instructions shall change as follows: the balancesheet expected net contractual cash flow in respect of the derivative instrument shall be classified as to Israeli or foreign currency, in accordance with the currency in which the settlement is effected. Amounts of off-balance sheet derivative instruments as above, are not to be reported.

The instructions of the circular are to be applied as from the annual report for 2013. The comparative data shall be reclassified in accordance with the new format. The implementation of the new instructions is not expected to have a material effect.

5. **Group allowance for credit losses.** A draft in the matter of "group allowance for credit losses" was published on April 10, 2013. Among other things the draft includes a provisional instruction "group allowance for credit losses" that replaces the provisional instruction "group allowance for credit losses in the years 2011-2012". The draft provisional instruction clarifies the range of years in respect of which a bank shall compute the rates of loss, and in addition, the period for computing the general and supplemental allowances in accordance with Proper Conduct of Banking Business Directives as a minimum amount of allowance has been extended. Furthermore, in the framework of the draft questions and answers were added which explain the manner of computing the group allowance for credit losses. In addition, the draft included guidelines regarding the examination of the appropriateness of the allowance for credit losses and documentation requirements. According to the draft, the time-table for the implementation of the new instructions would be graded.

The Bank is studying the draft instruction. In view of its complexity and unclarity with respect to certain of its components it is not possible at this stage to evaluate its impact. However, the Bank believes that the initial implementation of the instructions would have a material adverse effect.

6. **Integration of the letters of the Supervisor of Banks in the public reporting instructions.** A circular of the Supervisor of Banks in the matter of the above integration was published on June 20, 2013, whereby certain letters of the Supervisor of Banks issued in recent years, are to be integrated within the framework of the public reporting instructions. As part of the integration process, disclosures included in the note on securities have, among other things, been updated, including a change in the disclosure format of the note, integration of disclosure requirements regarding investment in asset backed securities and disclosure regarding securities held to maturity and those available for sale, which are in an unrealized loss position.

The updates as stated in the instruction shall apply to financial statements as of December 31, 2013 and thereafter. The comparative data is to be reclassified in order to adjust it to the new disclosure format, where relevant. Implementation of the instruction is not expected to have a material effect on the financial statements, except for the change in the disclosure format of the note on securities.

2. SECURITIES – CONSOLIDATED

A. Composition

	Unaudited				
	September 30 ,2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,729	3,729	251	-	3,980
Of foreign governments	6	6	1	-	7
Of Israeli financial institutions	87	87	6	-	93
Of foreign financial institutions	65	65	1	3	63
Mortgage-backed-securities or Assets - backed-securities	1,389	1,389	25	29	1,385
Of others abroad(6)	2,147	2,147	67	70	2,144
Total held-to-maturity bonds	**7,423**	**(2)7,423**	**351**	**102**	**7,672**

	Unaudited				
	September 30 ,2013				
			Cumulative other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value(1)
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	21,612	21,239	375	2	21,612
Of foreign governments	973	984	4	15	973
Of Israeli financial institutions	637	618	19	-	637
Of foreign financial institutions	3,178	3,301	31	154	3,178
Mortgage-backed-securities or Assets - backed-securities	8,828	8,933	50	155	8,828
Of others in Israel	685	650	35	-	685
Of others abroad(7)	60	69	-	9	60
Total bonds	35,973	35,794	514	335	(2)35,973
Shares	866	855	11	-	(4)866
Total available-for-sale securities	**36,839**	**36,649**	**(3)525**	**(3)335**	**36,839**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	September 30 ,2013				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	2,736	2,731	6	1	2,736
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	10	10	-	-	10
Of foreign financial institutions	11	11	-	-	11
Mortgage-backed-securities or Assets - backed-securities	43	44	-	1	43
Of others in Israel	48	47	1	-	48
Of others abroad	8	9	-	1	8
Total bonds	2,860	2,856	7	3	2,860
Shares	2	4	-	2	2
Total trading securities	**2,862**	**2,860**	**(5)7**	**(5)5**	**2,862**
Total securities	**47,124**	**46,932**	**883**	**442**	**47,373**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consiliated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 1,029 million (approx. US$ 291 million) and from the available for sale protfolio with a market value of NIS 4,015 million (approx. US$ 1,135 million).

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Including shares , the fair value of which is not readily available, stated at cost of NIS 776 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 2,129 million (book value).

(7) Including U.S. Government agencies, in an amount of NIS 54 million (book value).

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	September 30,2012				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,252	3,252	174	-	3,426
Of foreign governments(6)	31	31	3	-	34
Of Israeli financial institutions	88	88	1	-	89
Of foreign financial institutions	82	82	1	2	81
Mortgage-backed-securities or Assets - backed-securities	1,700	1,700	58	2	1,756
Of others abroad(6)	1,989	1,989	152	-	2,141
Total held-to-maturity bonds	**7,142**	**(2)7,142**	**389**	**4**	**7,527**

	Unaudited				
	September 30,2012				
			Cumulative other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value(1)
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	20,627	20,280	364	17	20,627
Of foreign governments(7)	826	819	7	-	826
Of Israeli financial institutions	747	730	19	2	747
Of foreign financial institutions	2,582	2,783	33	234	2,582
Mortgage-backed-securities or Assets - backed-securities	10,801	10,696	164	59	10,801
Of others in Israel	601	602	14	15	601
Of others abroad(7)	58	58	-	-	58
Total bonds	36,242	35,968	601	327	(2)36,242
Shares	636	635	1	-	(4)636
Total available-for-sale securities	**36,878**	**36,603**	**(3)602**	**(3)327**	**36,878**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	September 30,2012				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[1]
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	1,185	1,182	4	1	1,185
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	9	9	-	-	9
Of foreign financial institutions	42	61	1	20	42
Mortgage-backed-securities or Assets - backed-securities	47	47	-	-	47
Of others in Israel	23	26	-	3	23
Of others abroad	2	3	-	1	2
Total bonds	1,312	1,332	5	25	1,312
Shares	2	5	-	3	2
Total trading securities	**1,314**	**1,337**	**(5)5**	**(5)28**	**1,314**
Total securities	**45,334**	**45,082**	**996**	**359**	**45,719**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consiliated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 1,366 million (approx. US$ 349 million) and from the available for sale protfolio with a market value of NIS 5,511 million (approx. US$ 1,409 million).

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Including shares , the fair value of which is not readily available, stated at cost of NIS 613 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 1,979 million (book value).

(7) Including U.S. Government agencies, in amount of NIS 39 million (book value).

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Audited				
	December 31,2012				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[1]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,250	3,250	259	-	3,509
Of foreign governments	30	30	3	-	33
Of Israeli financial institutions	87	87	4	-	91
Of foreign financial institutions	75	75	1	2	74
Mortgage-backed-securities or Assets - backed-securities ˙	1,520	1,520	44	2	1,562
Of others abroad[6]	2,026	2,026	143	2	2,167
Total held-to-maturity bonds	**6,988**	**[2]6,988**	**454**	**6**	**7,436**

	Audited				
	December 31,2012				
			Cumulative other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[1]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	20,610	20,027	591	8	20,610
Of foreign governments	917	911	6	-	917
Of Israeli financial institutions	729	709	20	-	729
Of foreign financial institutions	2,567	2,705	40	178	2,567
Mortgage-backed-securities or Assets - backed-securities ˙	9,754	9,691	127	64	9,754
Of others in Israel	705	681	27	3	705
Of others abroad[7]	74	76	-	2	74
Total bonds	35,356	34,800	811	255	[2]35,356
Shares	704	703	1	-	[4]704
Total available-for-sale securities	**36,060**	**35,503**	**[3]812**	**[3]255**	**36,060**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Audited				
	December 31,2012				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	2,822	2,816	6	-	2,822
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	19	19	-	-	19
Of foreign financial institutions	33	48	1	16	33
Mortgage-backed-securities or Assets - backed-securities `	53	53	-	-	53
Of others in Israel	18	20	-	2	18
Of others abroad	2	3	-	1	2
Total bonds	2,951	2,963	7	19	2,951
Shares	2	5	-	3	2
Total trading securities	**2,953**	**2,968**	**(5)7**	**(5)22**	**2,953**
Total securities	**46,001**	**45,459**	**1,273**	**283**	**46,449**

Footnotes::

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consiliated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 1,250 million (approx. US$ 335 million) and from the available for sale protfolio with a market value of NIS 5,238 million (approx. US$ 1,403 million).

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Including shares , the fair value of which is not readily available, stated at cost of NIS 645 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 2,016 million (book value).

(7) Including U.S. Government agencies, in amount of NIS 64 million (book value).

B. The securities portfolio, as of September 30, 2013, includes investments in asset backed securities, primarily investment in mortgage - backed securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed Securities - MBS", "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 3 to the financial statements as of December 31, 2012. The portfolio as of September 30, 2013, includes also secured bonds of the CLO (Collateralized Loan Obligations) type.

C. Most of the unrealized losses at September 30, 2013 are attributed to certain factors, including changes in market interest rate subsequent to acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it's relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them, pursuant to the investment contracts.

Since the Bank and the relevant consolidated subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for debt securities, might not be until maturity), the Bank and the relevant consolidated subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at September 30, 2013, with the exception of certain securities, in respect of which a provision for impairment in an amount of NIS 11 million was recorded.

D. The securities portfolio of the Discount Group as at September 30, 2013, includes a direct investment in bonds of the Federal Home Loan Bank (FHLB), Fannie Mae and Freddie Mac (hereinafter: "the Federal Agencies"), which are being held by IDB New York, in an amount of US$25 million (NIS 88 million) compared to US$76 million on December 31, 2012 (NIS 277 million).

E. **Fair value presentation.** The balances of securities as of September 30, 2013, September 30, 2012 and December 31, 2012, include securities amounting to NIS 38,925 million, NIS 37,579 million and NIS 38,368 million, respectively, that are presented at fair value.

2. SECURITIES - CONSOLIDATED (CONTINUED)

F. Additional details (consolidated) regarding mortgage and asset backed securities

	Unaudited			
	September 30,2013			
	Amortized cost	Unrecognized gains from adjustment to fair value(1)	Unrecognized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	140	2	2	140
Securities issued by FHLMC and FNMA	2,580	33	43	2,570
Total mortgage-backed pass-through securities	**2,720**	**35**	**45**	**2,710**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,132	12	110	5,034
Other mortgage-backed securities	20	-	*-	20
Total available-for-sale other mortgage-backed securities	**5,152**	**12**	**110**	**5,054**
Total available-for-sale MBS securities	**7,872**	**47**	**155**	**7,764**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	57	3	-	60
Securities issued by FHLMC and FNMA	46	2	-	48
Total mortgage-backed pass-through securities	**103**	**5**	**-**	**108**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,241	11	29	1,223
Other mortgage-backed securities	45	9	-	54
Total held-to-maturity other mortgage-backed securities	**1,286**	**20**	**29**	**1,277**
Total held-to-maturity MBS securities	**1,389**	**25**	**29**	**1,385**
Trading securities:				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	-	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	43	-	1	42
Total mortgage-backed trading securities (MBS)	**44**	**-**	**1**	**43**
Total mortgage-backed securities (MBS)	**9,305**	**72**	**185**	**9,192**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	1,061	3	*-	1,064
Total asset-backed available-for-sale securities (ABS)	**1,061**	**3**	***-**	**1,064**
Total mortgage and asset-backed securities	**10,366**	**75**	**185**	**10,256**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available sale securities-Total other cumulative income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

F. Additional details (consolidated) regarding mortgage and asset backed securities (continued)

	Unaudited			
	September 30,2012			
	Amortized cost	Unrecognized gains from adjustment to fair value(1)	Unrecognized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	132	3	-	135
Securities issued by FHLMC and FNMA	2,461	94	-	2,555
Total mortgage-backed pass-through securities	**2,593**	**97**	**-**	**2,690**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	7,693	65	59	7,699
Other mortgage-backed securities	22	1	-	23
Total available-for-sale other mortgage-backed securities	**7,715**	**66**	**59**	**7,722**
Total available-for-sale MBS securities	**10,308**	**163**	**59**	**10,412**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	86	6	-	92
Securities issued by FHLMC and FNMA	79	6	-	85
Total mortgage-backed pass-through securities	**165**	**12**	**-**	**177**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,483	34	2	1,515
Other mortgage-backed securities	52	12	-	64
Total held-to-maturity other mortgage-backed securities	**1,535**	**46**	**2**	**1,579**
Total held-to-maturity MBS securities	**1,700**	**58**	**2**	**1,756**
Trading securities:				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	2	-	-	2
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	45	-	*-	45
Total mortgage-backed trading securities (MBS)	**47**	**-**	***-**	**47**
Total mortgage-backed securities (MBS)	**12,055**	**221**	**61**	**12,215**
2. Asset-backed available-for-sale securities (ABS):				
Collaterized bonds CLO	388	1	*-	389
Total asset-backed available-for-sale securities (ABS)	**388**	**1**	***-**	**389**
Total mortgage and asset-backed securities	**12,443**	**222**	**61**	**12,604**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available sale securities-Total other cumulative income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

F. Additional details (consolidated) regarding mortgage and asset backed securities (continued)

	Audited			
	December 31,2012			
	Amortized cost	Unrecognized gains from adjustment to fair value(1)	Unrecognized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1. Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	186	3	*-	189
Securities issued by FHLMC and FNMA	2,434	70	*-	2,504
Total mortgage-backed pass-through securities	**2,620**	**73**	***-**	**2,693**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	6,355	50	62	6,343
Other mortgage-backed securities	21	1	-	22
Total available-for-sale other mortgage-backed securities	**6,376**	**51**	**62**	**6,365**
Total available-for-sale MBS securities	**8,996**	**124**	**62**	**9,058**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	79	4	-	83
Securities issued by FHLMC and FNMA	67	4	-	71
Total mortgage-backed pass-through securities	**146**	**8**	**-**	**154**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,326	24	2	1,348
Other mortgage-backed securities	48	12	-	60
Total held-to-maturity other mortgage-backed securities	**1,374**	**36**	**2**	**1,408**
Total held-to-maturity MBS securities	**1,520**	**44**	**2**	**1,562**
Trading securities:				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	2	-	-	2
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	51	-	*-	51
Total mortgage-backed trading securities (MBS)	**53**	**-**	***-**	**53**
Total mortgage-backed securities (MBS)	**10,569**	**168**	**64**	**10,673**
2. Asset-backed available-for-sale securities (ABS) and structured financial products:				
Collaterized bonds CLO	695	3	2	696
Total asset-backed available-for-sale securities (ABS) and structured financial products	**695**	**3**	**2**	**696**
Total mortgage and asset-backed securities and structured financial products	**11,264**	**171**	**66**	**11,369**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available sale securities-Total other cumulative income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

G. Additional details (consolidated) regarding mortgage and asset backed securities

Additional details regarding mortgage and asset backed securities in unrealized loss position:

	Unaudited			
	September 30,2013			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities				
Securities guaranteed by GNMA	102	2	-	-
Securities issued by FHLMC and FNMA	1,055	43	-	-
Total mortgage-backed pass-through securities	**1,157**	**45**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,610	69	1,373	41
Other MBS securities	20	*-	-	-
Total other mortgage-backed securities	**2,630**	**69**	**1,373**	**41**
Total available-for-sale MBS securities	**3,787**	**114**	**1,373**	**41**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	843	27	81	2
Total other mortgage-backed securities	**843**	**27**	**81**	**2**
Total held-to-maturity MBS securities	**843**	**27**	**81**	**2**
Trading securities:				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	26	1	3	*-
Total mortgage-backed trading securities (MBS)	**26**	**1**	**3**	***-**
Total mortgage-backed securities (MBS)	**4,656**	**142**	**1,457**	**43**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	169	*-	-	-
Total asset-backed available-for-sale securities (ABS)	**169**	***-**	**-**	**-**
Total mortgage and asset-backed securities	**4,825**	**142**	**1,457**	**43**

*Loss amount lower then NIS 1 million.

2. SECURITIES – CONSOLIDATED (CONTINUED)

G. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	Unaudited			
	September 30,2012			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,611	48	483	11
Total other mortgage backed securities	**3,611**	**48**	**483**	**11**
Total available-for-sale MBS securities	**3,611**	**48**	**483**	**11**
Held-to-maturity securities				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	185	2	-	-
Total other mortgage backed securities	**185**	**2**	**-**	**-**
Total held-to-maturity MBS securities	**185**	**2**	**-**	**-**
Trading securities:				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	18	*-	9	*-
Total mortgage-backed trading securities (MBS)	**18**	***-**	**9**	***-**
Total mortgage-backed securities (MBS)	**3,814**	**50**	**492**	**11**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	172	*-	-	-
Total asset backed available-for-sale securities (ABS)	**172**	***-**	**-**	**-**
Total mortgage and asset backed securities	**3,986**	**50**	**492**	**11**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

G. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	Audited			
	December 31, 2012			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-Backed Securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	68	*-	-	-
Securities issued by FHLMC and FNMA	98	*-	-	-
Total mortgage-backed pass through securities	**166**	***-**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,349	50	437	12
Total other mortgage-backed securities	**3,349**	**50**	**437**	**12**
Total available-for-sale MBS securities	**3,515**	**50**	**437**	**12**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	228	2	-	-
Total other mortgage-backed securities	**228**	**2**	**-**	**-**
Total held-to-maturity MBS securities	**228**	**2**	**-**	**-**
Trading securities:				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	27	*-	14	*-
Total mortgage-backed trading securities (MBS)	**27**	***-**	**14**	***-**
Total mortgage-backed securities (MBS)	**3,770**	**52**	**451**	**12**
2.Asset-backed available-for-sale Securities (ABS)				
Collaterized bonds CLO	395	2	-	-
Total asset-backed available-for-sale securities (ABS)	**395**	**2**	**-**	**-**
Total mortgage and asset backed securities	**4,165**	**54**	**451**	**12**

*Loss amount lower then NIS 1 million.

H. Information regarding impaired bonds - consolidated

	Unaudited		Audited
	September 30, 2013	September 30, 2012	December 31, 2012
	In NIS millions		
Recorded amount of non accruing interest income impaired bonds	41	82	82

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

General. In the annual report for 2012, the Bank implemented for the first time the instructions of the Supervisor of Banks regarding "Update of the disclosure as to the quality of credit of debts and the allowance for credit losses". The comparative figures for the nine and three months periods ended on September 30, 2012 have been reclassified in this report, to the extent possible, in order to modify them to the required format in accordance with the said instructions. For details, see Note 1E 4 above.

Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under resale agreements.

A. Debts and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses – Consolidated

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	For the three months ended September 30, 2013					
Balance of allowance for credit losses, as June 30, 2013	1,618	266	372	2,256	4	2,260
Credit loss expenses	158	(1)	14	171	-	171
Accounting write-offs	(113)	(1)	(71)	(185)	-	(185)
Collection of debts written-off in previous years	72	-	52	124	-	124
Net accounting write-offs	(41)	(1)	(19)	(61)	-	(61)
Financial statements translation adjustments	(5)	-	-	(5)	-	(5)
Balance of allowance for credit losses, as September 30, 2013	**1,730**	**264**	**367**	**2,361**	**4**	**2,365**
Of which: In respect of off-balance sheet credit instruments	140	1	34	175	-	175
	For the three months ended September 30, 2012					
Balance of allowance for credit losses, as June 30, 2012	1,437	225	419	2,081	5	2,086
Credit loss expenses	209	(7)	31	233	-	233
Accounting write-offs	(183)	(5)	(51)	(239)	-	(239)
Collection of debts written-off in previous years	83	-	25	108	-	108
Net accounting write-offs	(100)	(5)	(26)	(131)	-	(131)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as September 30, 2012	**1,547**	**213**	**424**	**2,184**	**5**	**2,189**
Of which: In respect of off-balance sheet credit instruments	135	-	47	182	-	182

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

1. Change in the balance of the allowance for credit losses – Consolidated (continued)

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	For the nine months ended September 30, 2013					
Balance of allowance for credit losses, as December 31, 2012 (audited)	1,636	225	395	2,256	5	2,261
Credit loss expenses	400	40	18	458	(1)	457
Accounting write-offs	(497)	(1)	(206)	(704)	-	(704)
Collection of debts written-off in previous years	205	-	160	365	-	365
Net accounting write-offs	(292)	(1)	(46)	(339)	-	(339)
Financial statements translation adjustments	(14)	-	-	(14)	-	(14)
Balance of allowance for credit losses, as September 30, 2013	**1,730**	**264**	**367**	**2,361**	**4**	**2,365**
Of which: In respect of off-balance sheet credit instruments	140	1	34	175	-	175
	For the nine months ended September 30, 2012					
Balance of allowance for credit losses, as December 31, 2011 (audited)	1,477	230	440	2,147	4	2,151
Credit loss expenses	445	(12)	40	473	1	474
Accounting write-offs	(645)	(5)	(139)	(789)	-	(789)
Collection of debts written-off in previous years	261	-	83	344	-	344
Net accounting write-offs	(384)	(5)	(56)	(445)	-	(445)
Foreign exchange rate differences in respect of subsidiaries	9	-	-	9	-	9
Balance of allowance for credit losses, as September 30, 2012	**1,547**	**213**	**424**	**2,184**	**5**	**2,189**
Of which: In respect of off-balance sheet credit instruments	135	-	47	182	-	182

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of debts and regarding the debts for which the allowance is computed – consolidated

	Unaudited								
	September 30,2013						September 30,2012		
	Credit to the public								
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total	Credit to the Public	Banks and Governments	Total
	In NIS millions								
Recorded amount of debts:									
Examined on a specific basis	60,258	60	3,878	64,196	5,753	69,949	63,447	4,357	67,804
Examined on a group basis:									
The allowance in respect thereof is computed by the extent of arrears	291	19,886	-	20,177	-	20,177	20,012	-	20,012
Other	18,531	56	15,724	34,311	2,843	37,154	37,583	2,650	40,233
Total debts	**79,080**	**20,002**	**19,602**	**118,684**	**8,596**	**127,280**	**121,042**	**7,007**	**128,049**
Allowance for Credit Losses in respect of debts:									
Examined on a specific basis	1,351	1	77	1,429	1	1,430	1,244	-	1,244
Examined on a group basis:									
The allowance in respect thereof is computed by the extent of arrears	1	(1)253	-	254	-	254	(1)221	-	221
Other	238	9	256	503	3	506	537	5	542
Total allowance for Credit Losses	**1,590**	**263**	**333**	**2,186**	**4**	**2,190**	**2,002**	**5**	**2,007**

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of debts and regarding the debts for which the allowance is computed – consolidated (continued)

	Audited					
	December 31,2012					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans(2)	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	62,145	35	(2)2,360	64,540	4,577	69,117
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	246	19,544	-	19,790	-	19,790
Other	18,941	86	(2)16,339	35,366	5,097	40,463
Total debts	**81,332**	**19,665**	**18,699**	**119,696**	**9,674**	**129,370**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	1,257	-	(2)50	1,307	-	1,307
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	2	(1)224	-	226	-	226
Other	245	1	(2)306	552	5	557
Total allowance for Credit Losses	**1,504**	**225**	**356**	**2,085**	**5**	**2,090**

Footnote:

(1) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 20 million (30.9.2012 - NIS 5 million, 31.12.2012 - NIS 15 million), computed on a group basis in an amount of NIS 69 million (30.9.2012- NIS 36 million, 31.12.2012- NIS 42 million).

(2) Reclassified - improvement of the classification to test routs.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts

1. Credit quality and arrears – consolidated

	Unaudited					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
	September 30, 2013					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	5,353	84	352	5,789	6	10
Construction and Real Estate - Real Estate Activity	7,531	109	572	8,212	1	7
Financial Services	5,615	146	179	5,940	1	1
Commercial - Other	34,629	1,899	1,293	37,821	27	65
Total Commercial	**53,128**	**2,238**	**2,396**	**57,762**	**35**	**83**
Private Individuals - Housing Loans	19,427	[5]521	-	19,948	486	102
Private Individuals - Other Loans	17,900	252	98	18,250	44	68
Total Public - Lending Activity in Israel	**90,455**	**3,011**	**2,494**	**95,960**	**565**	**253**
Banks in Israel	1,284	-	-	1,284	-	-
Government of Israel	1,797	-	-	1,797	-	-
Total Lending Activity in Israel	**93,536**	**3,011**	**2,494**	**99,041**	**565**	**253**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,673	178	1,301	7,152	-	4
Commercial - Other	13,288	173	705	14,166	-	-
Total Commercial	**18,961**	**351**	**2,006**	**21,318**	**-**	**4**
Private Individuals	1,384	8	14	1,406	1	5
Total Public - Lending Activity Outside of Israel	**20,345**	**359**	**2,020**	**22,724**	**1**	**9**
Foreign banks	5,456	-	-	5,456	-	-
Foreign governments	59	-	-	59	-	-
Total Lending Activity Outside of Israel	**25,860**	**359**	**2,020**	**28,239**	**1**	**9**
Total public	**110,800**	**3,370**	**4,514**	**118,684**	**566**	**262**
Total banks	**6,740**	**-**	**-**	**6,740**	**-**	**-**
Total governments	**1,856**	**-**	**-**	**1,856**	**-**	**-**
Total	**119,396**	**3,370**	**4,514**	**127,280**	**566**	**262**

For footnotes see after item 1.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Unaudited				
	September 30, 2012				
				Unimpaired debts – additional information	
	Unimpaired	Impaired[2]	Total	In arrears for 90 days or more[3]	In arrears for 30 to 89 days[4]
	In NIS millions				
Credit to the Public					
Examined on a specific basis	57,933	5,514	63,447	-	54
Housing loans according to the extent of period in arrears	20,012	-	20,012	446	277
Examined on other group basis	37,574	9	37,583	74	93
Total Public	**115,519**	**5,523**	**121,042**	**520**	**424**
Total Banks	**5,273**	**-**	**5,273**	**-**	**-**
Total Governments	**1,734**	**-**	**1,734**	**-**	**-**
Total	**122,526**	**5,523**	**128,049**	**520**	**424**

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Audited					
	December 31, 2012					
		Problematic(1)			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired(2)	Total	In Arrears of 90 Days or More(3)	In Arrears of 30 to 89 Days(4)
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	5,024	84	632	5,740	3	11
Construction and Real Estate - Real Estate Activity	7,610	7	489	8,106	1	3
Financial Services	7,031	247	420	7,698	1	-
Commercial - Other	35,519	869	1,470	37,858	25	56
Total Commercial	**55,184**	**1,207**	**3,011**	**59,402**	**30**	**70**
Private Individuals - Housing Loans	(6)19,141	(5)(6)472	-	19,613	592	92
Private Individuals - Other Loans	(7)17,072	(7)253	147	17,472	48	53
Total Public - Lending Activity in Israel	**91,397**	**1,932**	**3,158**	**96,487**	**670**	**215**
Banks in Israel	1,267	-	-	1,267	-	-
Government of Israel	1,614	-	-	1,614	-	-
Total Lending Activity in Israel	**94,278**	**1,932**	**3,158**	**99,368**	**670**	**215**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,740	201	1,511	7,452	-	
Commercial - Other	13,423	286	769	14,478	-	5
Total Commercial	**19,163**	**487**	**2,280**	**21,930**	**-**	**5**
Private Individuals	1,263	9	7	1,279	1	8
Total Public - Lending Activity Outside of Israel	**20,426**	**496**	**2,287**	**23,209**	**1**	**13**
Foreign banks	6,711	-	-	6,711	-	-
Foreign governments	82	-	-	82	-	-
Total Lending Activity Outside of Israel	**27,219**	**496**	**2,287**	**30,002**	**1**	**13**
Total public	**111,823**	**2,428**	**5,445**	**119,696**	**671**	**228**
Total banks	**7,978**	**-**	**-**	**7,978**	**-**	**-**
Total governments	**1,696**	**-**	**-**	**1,696**	**-**	**-**
Total	**121,497**	**2,428**	**5,445**	**129,370**	**671**	**228**

Footnotes:

(1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.

(2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under troubled debt restructuring, see Note 3.B.2.c. below.

(3) Classified as unimpaired problematic debts. Accruing interest income.

(4) Accruing interest income. Debts in arrears for between 30 and 89 days in amoumt of NIS 129 millions (31.12.2012 - NIS 196 million) are classified as unimpaired problematic debts.

(5) Including housing loans in amoumt of NIS 7 millions (31.12.2012 - NIS 13 million) with a allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due.

(6) Reclassified as a result of improvements in the classification of housing loans.

(7) Reclassified in order to present certain debts in problematic credit (following classification in a subsidiary company).

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. Impaired debts and specific allowance

	Unaudited				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
	September 30,2013				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	66	27	286	352	3,999
Construction and Real Estate - Real Estate Activity	203	27	369	572	1,963
Financial Services	155	65	24	179	524
Commercial - Other	473	119	820	1,293	6,316
Total Commercial	**897**	**238**	**1,499**	**2,396**	**12,802**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	51	14	47	98	472
Total Public - Lending Activity in Israel	**948**	**252**	**1,546**	**2,494**	**13,274**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**948**	**252**	**1,546**	**2,494**	**13,274**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	960	50	341	1,301	1,920
Commercial - Other	574	149	131	705	1,060
Total Commercial	**1,534**	**199**	**472**	**2,006**	**2,980**
Private Individuals	14	11		14	18
Total Public - Lending Activity Outside of Israel	**1,548**	**210**	**472**	**2,020**	**2,998**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**1,548**	**210**	**472**	**2,020**	**2,998**
Total public	**2,496**	**462**	**2,018**	**4,514**	**16,272**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,496**	**462**	**2,018**	**4,514**	**16,272**
Of which:					
Measured According to Present Value of Cash Flows	1,102	321	955	2,057	
Debts under troubled debt restructurings	982	119	1,078	2,060	
	September 30,2012				
Total public	2,246	434	3,268	5,514	
Of which:					
Measured According to Present Value of Cash Flows				2,033	
Debts under troubled debt restructurings				2,379	

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. Impaired debts and specific allowance (continued)

	Audited				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3][4]
	In NIS millions				
	December 31,2012				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	116	36	516	632	4,740
Construction and Real Estate - Real Estate Activity	50	13	439	489	2,047
Financial Services	371	67	49	420	824
Commercial - Other	486	96	984	1,470	7,208
Total Commercial	**1,023**	**212**	**1,988**	**3,011**	**14,819**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	75	22	72	147	509
Total Public - Lending Activity in Israel	**1,098**	**234**	**2,060**	**3,158**	**15,328**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,098**	**234**	**2,060**	**3,158**	**15,328**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	647	102	864	1,511	1,960
Commercial - Other	753	148	16	769	1,003
Total Commercial	**1,400**	**250**	**880**	**2,280**	**2,963**
Private Individuals	7	6	-	7	7
Total Public - Lending Activity Outside of Israel	**1,407**	**256**	**880**	**2,287**	**2,970**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**1,407**	**256**	**880**	**2,287**	**2,970**
Total public	**2,505**	**490**	**2,940**	**5,445**	**18,298**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,505**	**490**	**2,940**	**5,445**	**18,298**
Of which:					
Measured According to Present Value of Cash Flows	1,118	285	1,137	2,255	
Debts under troubled debt restructurings	799	91	1,591	2,390	

Footnotes:
(1) Recorded amount
(2) Specific allowance for credit losses
(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.
(4) Reclassified due to changes in the data of a subsidiary company.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. Average balance and interest income

	Average recorded amount of Impaired Debts in the reported period[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis	Average recorded amount of Impaired Debts in the reported period[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis
	For the three months ended September 30, 2013			For the nine months ended september 30, 2013		
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	378	4	3	561	7	5
Construction and Real Estate - Real Estate Activity	555	5	3	572	6	3
Financial Services	182	-	-	207	-	-
Commercial - Other	1,354	8	6	1,450	23	13
Total Commercial	**2,469**	**17**	**12**	**2,790**	**36**	**21**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	107	3	2	134	9	5
Total Public - Lending Activity in Israel	**2,576**	**20**	**14**	**2,924**	**45**	**26**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**2,576**	**20**	**14**	**2,924**	**45**	**26**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1,312	6	6	1,355	7	6
Commercial - Other	742	5	4	768	6	4
Total Commercial	**2,054**	**11**	**10**	**2,123**	**13**	**10**
Private Individuals	-	-	-	15	-	-
Total Public - Lending Activity Outside of Israel	**2,054**	**11**	**10**	**2,138**	**13**	**10**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**2,054**	**11**	**10**	**2,138**	**13**	**10**
Total	**4,630**	[(3)]**31**	**24**	**5,062**	[(3)]**58**	**36**

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. Average balance and interest income (continued)

	For the three months ended September 30, 2012[4]	For the nine months ended September 30, 2012[4]
	in NIS millions	
The average recorded amount of impaired debts[1]	5,332	5,402
Total interest income recognized in respect of such debts during the period of time in which it had been classified as impaired	28	85
Of which: interest income recorded by the cash basis accounting method.	16	37
Total interest income that would have been recognized had such debts accrued interest according to its original terms.	85	258

Footnotes:

(1) Average recorded amount of Impaired debts during the period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amoumt of NIS 48 millions and NIS 154 millions for three and nine months ended september 30, 2013, respectively.

(4) Reclassified due to changes in the data of a subsidiary company.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured problematic debts – consolidated

	Unaudited				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
	September 30,2013				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	155	-	2	40	197
Construction and Real Estate - Real Estate Activity	269	-	-	64	333
Financial Services	19	-	-	32	51
Commercial - Other	479	-	7	204	690
Total Commercial	**922**	**-**	**9**	**340**	**1,271**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	30	-	1	45	76
Total Public - Lending Activity in Israel	**952**	**-**	**10**	**385**	**1,347**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**952**	**-**	**10**	**385**	**1,347**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	634	21	22	11	688
Commercial - Other	7	-	-	12	19
Total Commercial	**641**	**21**	**22**	**23**	**707**
Private Individuals	6	-	-	-	6
Total Public - Lending Activity Outside of Israel	**647**	**21**	**22**	**23**	**713**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**647**	**21**	**22**	**23**	**713**
Total	**1,599**	**21**	**32**	**408**	**2,060**
	September 30,2012				
Total public	**881**	**-**	**26**	**1,472**	**2,379**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**881**	**-**	**26**	**1,472**	**2,379**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured problematic debts – consolidated (continued)

	Audited				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
	December 31,2012				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	44	-	3	59	106
Construction and Real Estate - Real Estate Activity	216	-	-	99	315
Financial Services	139	-	-	107	246
Commercial - Other	363	-	7	292	662
Total Commercial	**762**	**-**	**10**	**557**	**1,329**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	5	-	14	78	97
Total Public - Lending Activity in Israel	**767**	**-**	**24**	**635**	**1,426**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**767**	**-**	**24**	**635**	**1,426**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	711	-	-	108	819
Commercial - Other	79	-	-	66	145
Total Commercial	**790**	**-**	**-**	**174**	**964**
Private Individuals					
Total Public - Lending Activity Outside of Israel	**790**	**-**		**174**	**964**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**790**	**-**	**-**	**174**	**964**
Total	**1,557**	**-**	**24**	**809**	**2,390**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured problematic debts – consolidated (continued)

	Unaudited					
	Debt restructuring made during					
	Three months ended September 30,2013			Nine months ended September 30,2013		
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	20	8	8	59	48	47
Construction and Real Estate - Real Estate Activity	4	1	1	4	1	1
Financial Services	2	11	11	3	14	14
Commercial - Other	119	15	14	361	140	136
Total Commercial	**145**	**35**	**34**	**427**	**203**	**198**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	719	11	11	2,717	39	37
Total Public - Lending Activity in Israel	**864**	**46**	**45**	**3,144**	**242**	**235**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**864**	**46**	**45**	**3,144**	**242**	**235**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	-	-	-	6	102	98
Commercial - Other	3	13	13	11	73	70
Total Commercial	**3**	**13**	**13**	**17**	**175**	**168**
Private Individuals				3	8	8
Total Public - Lending Activity Outside of Israel	**3**	**13**	**13**	**20**	**183**	**176**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**3**	**13**	**13**	**20**	**183**	**176**
Total	**867**	**59**	**58**	**3,164**	**425**	**411**

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured problematic debts – consolidated (continued)

	Unaudited			
	Failure of restructured debts during[1]			
	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	5	[2]-	14	2
Construction and Real Estate - Real Estate Activity	1	[2]-	1	[2]-
Financial Services	-	-	1	[2]-
Commercial - Other	53	2	118	12
Total Commercial	**59**	**2**	**134**	**14**
Private Individuals - Housing Loans	-	-	-	-
Private Individuals - Other Loans	681	4	2,784	14
Total Public - Lending Activity in Israel	**740**	**6**	**2,918**	**28**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total Lending Activity in Israel	**740**	**6**	**2,918**	**28**
Lending Activity Outside of Israel				
Commercial - Other	-	-	2	[2]-
Total Commercial	**-**	**-**	**2**	**-**
Total Public - Lending Activity Outside of Israel	**-**	**-**	**2**	**-**
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total Lending Activity Outside of Israel	**-**	**-**	**2**	**-**
TOTAL	**740**	**6**	**2,920**	**28**

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrear.

(2) An amount lower than NIS 1 million.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES – CONSOLIDATED (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to private consumption;
- Exposure to foreign competition;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent period, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan;
- Future regulation might restrict the ability to realize the assets/collaterals and reduce the possibility of reliance thereon.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

(B) Indication of credit quality

	Unaudited				Audited			
	September 30,2013				December 31,2012			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	TOTAL	Commercial	Housing Loans	Other Loans	TOTAL
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	91.2%	97.4%	98.1%	93.4%	91.4%	97.6%	97.9%	93.4%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	3.3%	2.6%	1.3%	2.8%	2.1%	2.4%	1.4%	2.1%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	5.6%	-	0.6%	3.8%	6.5%	-	0.8%	4.5%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	2.0%	1.3%	1.7%	1.8%	1.8%	1.1%	1.9%	1.7%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit (excluding derivatives and bonds)	21.0%	50.4%	88.3%	25.8%	19.8%	47.6%	84.5%	24.6%

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

The period in arrears of debt is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt examined on a specific basis is classified as impaired when payments of principal or interest in respect thereof are in arrears of ninety days or over, except where the debt is well secured and is in the process of collection.

A principal indication for the quality of the Bank's credit portfolio is the ratio of performing debts to problematic debts. During the first nine months of 2013, stability was maintained in the ratio of the performing credit to the public, which amounted to 93.4% on September 30, 2013, similar to that as of the end of 2012. Impaired credit as a ratio of total credit to the public declined from the beginning of the year, due to a decline in the commerce sector comprising most of the impaired credit.

Notwithstanding, the ratio of the problematic credit which is not impaired increased forming 2.8% of total credit to the public, mostly due to a single borrower in the commercial credit segment.

In the first nine months of the year, the ratio of the balance of the allowance for credit losses to problematic credit risk increased, mainly due to the increase in the balance of the allowance in the middle market banking segment. The increase in the ratio of allowance for credit losses from the problematic credit risk in housing loans was due, inter alia, to a non-recurring allowance resulting from the implementation of the directives of the Supervisor of Banks in the matter of housing loans (see Note 1 E 6 above).

(C) Policy and procedures for determining the allowance for credit losses

The Bank has determined a specific policy and procedures for detection, classification and treatment, designed to ensure the adequacy of the allowance. The processes defined in the Bank's policy are consistently applied by all risk accepting functionaries at the Bank and at the control circles. The policy and procedures were drafted in accordance with and on the basis of the regulatory requirements included in the directives and guidelines of the Supervisor of Banks. Procedures are updated in accordance with changes in regulatory directives.

In the first nine months of 2013, changes were made to the Bank's procedures for handling problematic debts and employees received guidance on these procedures.

A wider discussion of the accounting policy was brought in Note 1 to the financial statements as of December 31, 2012.

(D) Credit quality disclosure

The Bank is following on a current basis the quality of the credit portfolio by means of methodical processes for the scanning and detection of problematic debts and of debts showing preliminary symptoms which might turn in the future into problematic debts. The processes include models and information system for detecting negative symptoms, the current scanning of borrowers, current discussions at credit committees and monitoring activities by the various control units.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

Balances for the period end, according to Loan-to-Value (LTV)[1] ratio, manner of repayment and type of interest:

		Unaudited			
		Balance of housing loans			
		Total	Of which: Bullet and Baloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		September 30,2013			
First degree pledge: financing ratio	Up to 60%	11,433	241	7,689	256
	Over 60%	8,413	76	5,717	88
Second degree pledge or without pledge		544	304	434	942
Total		**20,390**	**621**	**13,840**	**1,286**
		Unaudited			
		September 30,2012			
Total		**20,183**	**-**	**-**	**1,839**
		Audited			
		December 31,2012			
First degree pledge: financing ratio	Up to 60%	10,866	224	[2] 7,168	275
	Over 60%	8,879	122	[2] 5,773	71
Second degree pledge or without pledge		347	303	[2] 378	1,204
Total		**20,092**	**649**	**13,319**	**1,550**

Footnotes:
(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the bank at the time the credit line was granted.
(2) Reclassified due to updating the definition of loans carrying variable interest.

C. Information regarding the purchase and sale of debts

Following are details regarding the consideration paid or received for the purchase or sale of loans:

	Credit to the public					Credit to the public			
	Commercial	Housing	Other	Credit to governments	Total	Commercial	Housing	Other	Total
	In NIS millions								
	For the three months ended September 30								
	2013					2012			
Loans acquired	-	-	-	15	15	-	-	-	-
Loans sold	434	-	-	-	434	2	-	-	2
	For the nine months ended September 30								
	2013					2012			
Loans acquired	-	-	-	146	146	-	-	-	-
Loans sold	547	-	-	-	547	55	-	-	55

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

C. Information regarding the purchase and sale of debts (continued)

Following are details regarding the consideration paid or received for the purchase or sale of loans (continued):

Additional details:

In the first nine months of 2013, the Bank sold its share in certain loans, which were recorded in the Bank's books in an amount of NIS 480 million. In respect of the sale of one of the loans, the Bank has recognized a gain of NIS 10 million. Recognition of gain in respect of the sale of an additional loan in the amount of NIS 18 million which is being examined vis-à-vis the Supervisor of Banks (in accordance with a guideline of the Supervisor of Banks according to which the recognition of profit from the sale of debts requires the prior approval of the Supervisor).

4. DEPOSITS FROM THE PUBLIC

	Unaudited		Audited
	September 30		December 31
	2013	2012	2012
	In NIS millions		
Demand deposits	46,847	39,311	40,894
Time and other deposits	103,080	111,791	107,937
Savings plan deposits	2,184	3,586	3,104
Total deposits from the public	**152,111**	**154,688**	**151,935**
Of which: deposits from institutional bodies raised in Israel	2,630	1,198	1,575

5. CAPITAL ADEQUACY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS

Details regarding the core capital target, the guideline in the matter of the minimum core capital ratios and the draft circular of the Supervisor of Banks regarding the adoption of Basel III instructions, were brought in Note 14 to the financial statements for December 31, 2012.

A final circular in the matter was published on June 3, 2013.

The Bank's core capital ratio as of September 30, 2013, stands at 9.3%.

Implementation of the letter of the Supervisor of Banks in the matter of update of the guidelines regarding housing real estate. The Bank implements the instructions of the Supervisor of Banks' letter in the matter of "Update of the guidelines regarding housing real estate", which include new requirements in the matter of capital adequacy:

(1) The risk weight involved in housing loans – stringent capital requirements have been introduced in respect of housing loans granted as from January 1, 2013. The new capital requirements depend on the LTV ratio as detailed below:
- LTV under 45% - a risk weight of 35%;
- LTV over 45% but under 60% - a risk weight of 50%;
- LTV ratio over 60% - a risk weight of 75% (if qualified for the regulatory retail credit) or higher.

(2) A credit conversion factor in respect of guarantees under the Sale Act following the delivery of the residential unit – a reduction in the credit conversion factor attributed to guarantees securing the investment of residential units purchasers from 20% to 10%, in the case where the residential unit had been delivered to the purchaser. This reduction applies also to the credit conversion factor of guarantees. This amendment applies retroactively.

The implementation of the new requirements, as stated, had no material effect on the Bank's risk assets and on its capital adequacy.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

1. Capital for calculating ratio of capital

	Unaudited		Audited
	September 30		December 31
	2013	2012	2012
	in NIS millions		
Tier 1 capital post deductions	13,216	(5)12,633	12,562
Tier 2 capital post deductions	5,856	(5)7,055	6,862
Total capital	**19,072**	**19,688**	**19,424**

2. Weighted risk assets balance

	Unaudited		Audited
	September 30		December 31
	2013	2012	2012
	in NIS millions		
Credit risk	117,711	122,982	120,686
Market Risk	2,210	2,255	2,238
Operational risk(4)	12,335	13,475	12,788
Total weighted risk assets balance	**132,256**	**138,712**	**135,712**

For notes to the table see after item 3.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

3. Ratio of capital to risk assets

	Unaudited		Audited
	September 30		December 31
	2013	2012	2012
	in %		
A. The bank			
Ratio of original tier 1 capital to risk assets	9.3	8.4	8.6
Ratio of tier 1 capital to risk assets	10.0	9.1	9.3
Ratio of total capital to risk assets	14.4	14.2	14.3
Ratio of total minimum capital required by the Supervisor of Banks	**9.0**	**9.0**	**9.0**
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of tier 1 capital to risk assets	10.4	9.9	10.5
Ratio of total capital to risk assets	14.6	14.2	15.0
Ratio of total minimum capital required by the Supervisor of Banks	**9.0**	**9.0**	**9.0**
2. Discount Bakcorp Inc. (1)			
Ratio of tier 1 capital to risk assets	13.7	14.0	14.2
Ratio of total capital to risk assets	14.8	15.2	15.4
Ratio of total minimum capital required by the Supervisor of Banks	**(2)8.0**	**(2)8.0**	**(2)8.0**
3. Israel Credit Cards LTD.			
Ratio of tier 1 capital to risk assets	15.4	16.5	15.2
Ratio of total capital to risk assets	16.8	16.9	16.8
Ratio of total minimum capital required by the Supervisor of Banks	**(3)9.0**	**(3)9.0**	**(3)9.0**

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) IDB New York, a subsidiary of Discount Bankcorp Inc., was classified by the FDIC as "well capitalized". Retaining the said classification requires the maintenance of a capital ratio,including the minimum ratio, of 10% and of a primary minimum capital ratio of 6%.

(3) In view of the approach by the Supervisor of Banks, ICC is required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010.

(4) Calculation of the capital requirement in respect of the operational risk as of September 30, 2013 and December 31, 2012, was performed accordind to the stadardised approach (TSA). The calculation as of September 30, 2012, was performed according to the basic indicator approach (BIA) for calculating the capital requirement regarding operational risk, and this in accordance with Proper Banking Management Directive No. 206 in the matter of "Measurement and capital adequacy – operational risk".

(5) Amended following adjustments made by FIBI – As detailed in the 2012 Annual Report, p. 334, Footnotes (5) and (7).

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED

	Unaudited						
	September 30, 2013						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	15,584	241	4,804	450	1,679	-	22,758
Securities	23,531	5,228	16,711	407	379	868	47,124
Securities borrowed or purchased under resale agreements	312	-	-	-	-	-	312
Credit to the public, net	68,525	17,974	24,080	4,274	1,645	-	116,498
Credit to the Government	75	1,722	50	-	9	-	1,856
Investments in affiliated companies	1	2	-	-	-	1,819	1,822
Buildings and equipment	-	-	-	-	-	2,762	2,762
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,325	154	367	291	205	50	3,392
Other assets	1,580	86	985	2	530	166	3,349
Noncurrect assets held for sale	-	-	-	-	-	10	10
Total assets	**111,933**	**25,407**	**46,997**	**5,424**	**4,447**	**5,817**	**200,025**
Liabilities							
Deposits from the public	85,469	10,110	43,722	8,384	4,426	-	152,111
Deposits from banks	1,792	270	1,668	67	36	-	3,833
Deposits from the Government	227	106	686	-	-	-	1,019
Securities loaned or sold under repurchase agreements	-	-	4,227	-	-	-	4,227
Subordinated capital notes	2,990	9,099	-	-	-	-	12,089
Liabilities in respect of derivative instruments	2,802	523	344	410	253	49	4,381
Other liabilities	8,700	155	726	25	82	146	9,834
Total liabilities	**101,980**	**20,263**	**51,373**	**8,886**	**4,797**	**195**	**187,494**
Difference	9,953	5,144	(4,376)	(3,462)	(350)	5,622	12,531
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(7,993)	(2,894)	7,214	3,469	204	-	-
Options in the money, net (in terms of underlying asset)	129	-	(158)	(3)	32	-	-
Options out of the money, net (in terms of underlying asset)	111	-	(46)	(50)	(15)	-	-
Total	**2,200**	**2,250**	**2,634**	**(46)**	**(129)**	**5,622**	**12,531**
Options in the money, net (discounted par value)	169	-	(209)	2	38	-	-
Options out of the money, net (discounted par value)	67	-	162	(125)	(104)	-	-

Footnote:
(1) Includes those linked to foreign currency.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

	Unaudited						
	September 30, 2012						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	21,714	368	4,147	518	797	-	27,544
Securities	20,516	5,090	18,186	489	415	638	45,334
Securities borrowed or purchased under resale agreements	678	-	-	-	-	-	678
Credit to the public, net	66,455	17,914	26,929	5,410	2,332	-	119,040
Credit to the Government	24	1,625	78	-	7	-	1,734
Investments in affiliated companies	3	2	-	-	-	1,617	1,622
Buildings and equipment	-	-	-	-	-	2,970	2,970
Intangible assets and goodwill	-	-	-	-	-	145	145
Assets in respect of derivative instruments	2,034	33	762	234	137	54	3,254
Other assets	1,484	44	1,059	1	140	185	2,913
Noncurrect assets held for sale	-	-	-	-	-	6	6
Total assets	**112,908**	**25,076**	**51,161**	**6,652**	**3,828**	**5,615**	**205,240**
Liabilities							
Deposits from the public	84,473	10,702	46,853	8,501	4,159	-	154,688
Deposits from banks	2,744	206	2,187	205	70	-	5,412
Deposits from the Government	249	106	704	-	-	-	1,059
Securities loaned or sold under repurchase agreements	-	-	5,752	-	-	-	5,752
Subordinated capital notes	2,994	9,428	-	-	-	-	12,422
Liabilities in respect of derivative instruments	2,205	470	706	364	206	54	4,005
Other liabilities	8,915	128	617	36	70	193	9,959
Total liabilities	**101,580**	**21,040**	**56,819**	**9,106**	**4,505**	**247**	**193,297**
Difference	11,328	4,036	(5,658)	(2,454)	(677)	5,368	11,943
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(10,436)	(905)	8,794	2,077	470	-	-
Options in the money, net (in terms of underlying asset)	60	-	(127)	49	18	-	-
Options out of the money, net (in terms of underlying asset)	(12)	-	(30)	26	16	-	-
Total	**940**	**3,131**	**2,979**	**(302)**	**(173)**	**5,368**	**11,943**
Options in the money, net (discounted par value)	174	-	(238)	68	(4)	-	-
Options out of the money, net (discounted par value)	765	-	(771)	17	(11)	-	-

Footnote:
(1) Includes those linked to foreign currency.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

	Audited						
	December 31, 2012						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	15,645	324	6,601	479	1,051	-	24,100
Securities	22,122	5,211	16,956	486	520	706	46,001
Securities borrowed or purchased under resale agreements	387	-	-	-	-	-	387
Credit to the public, net	68,444	17,542	24,683	4,896	2,046	-	117,611
Credit to the Government	1	1,612	74	-	9	-	1,696
Investments in affiliated companies	3	2	-	-	-	1,719	1,724
Buildings and equipment	-	-	-	-	-	2,962	2,962
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	[2]2,916	49	[2]351	[2]231	[2]75	[2]105	3,727
Other assets	1,293	70	1,002	9	125	163	2,662
Noncurrect assets held for sale	-	-	-	-	-	-	-
Total assets	**110,811**	**24,810**	**49,667**	**6,101**	**3,826**	**5,797**	**201,012**
Liabilities							
Deposits from the public	83,620	10,363	45,435	8,394	4,123	-	151,935
Deposits from banks	1,771	257	1,604	57	31	-	3,720
Deposits from the Government	247	111	647	-	-	-	1,005
Securities loaned or sold under repurchase agreements	-	-	5,452	-	-	-	5,452
Subordinated capital notes	3,019	9,265	-	-	-	-	12,284
Liabilities in respect of derivative instruments	[2]3,142	514	[2]391	[2]422	[2]134	[2]105	4,708
Other liabilities	8,788	222	512	19	80	153	9,774
Total liabilities	**100,587**	**20,732**	**54,041**	**8,892**	**4,368**	**258**	**188,878**
Difference	10,224	4,078	(4,374)	(2,791)	(542)	5,539	12,134
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(9,624)	(867)	7,527	2,653	311	-	-
Options in the money, net (in terms of underlying asset)	187	-	(254)	33	34	-	-
Options out of the money, net (in terms of underlying asset)	(70)	-	112	(19)	(23)	-	-
Total	**717**	**3,211**	**3,011**	**(124)**	**(220)**	**5,539**	**12,134**
Options in the money, net (discounted par value)	201	-	(253)	15	37	-	-
Options out of the money, net (discounted par value)	1	-	434	(344)	(91)	-	-

Footnotes:

(1) Includes those linked to foreign currency.

(2) Reclassified, see note 1 E 2.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

A. Off balance Sheet Financial Instruments[3]

	Unaudited		Unaudited		Audited	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	September 30,2013		September 30,2012		December 31,2012	
	in NIS millions					
Contract balances or their stated amounts at year end Transactions involving credit risk:						
Letters of credit	1,155	3	1,634	1	1,475	1
Credit guarantees	2,850	38	2,847	41	2,838	43
Guarantees for home purchasers	5,567	15	5,365	17	5,409	14
Other guarantees and obligations	4,232	36	4,671	28	4,620	31
Unutilized facilities for transactions in derivative instruments	1,319	-	1,054	-	1,024	-
Unutilized credit line for credit cards	17,284	24	15,840	22	15,482	22
Unutilized current loan account facilities and other credit facilities in on-call accounts	7,513	19	7,922	20	7,841	19
Irrevocable commitments to extend credit approved but not yet granted[3]	14,352	35	17,119	48	17,072	35
Commitment to issue guarantees	2,648	5	3,108	5	3,744	6

Footnotes:

(1) Contract balance or their stated amounts at period end before of provision for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaning interest rates" in accordance with Proper Management Directive No, 451 "Procedures for the granting of housing loans".

B. Contingent liabilities and other special commitments

	Unaudited		Audited
	September 30		December 31
	2013	2012	2012
	in NIS millions		
1. Long-term lease contracts - rent payable in future years:			
First year	109	106	[(1)]116
Second year	102	88	[(1)]96
Third year	83	75	[(1)]84
Fourth year	67	60	[(1)]65
Fifth year	57	55	[(1)]57
Sixth year and thereafter	291	226	[(1)]281
Total	**709**	**610**	**699**
2. Commitment to acquire buildings and equipment	43	74	59
3. Commitment to invest in private investment funds and in venture capital funds	294	421	352

(1) Reclassified – following reclassification in a consolidated company.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

4. Various actions against the Bank and its consolidated subsidiaries:

As detailed in Note 19 C 12 to the financial statements as at December 31, 2012, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 1,355 million as of September 30, 2013.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 19 C sections 12 through 15 to the financial statements as at December 31, 2012. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 17 to the financial statements as at December 31, 2012.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

4.1 Note 19 C 12.2 to the financial statements as of December 31, 2012, described a lawsuit filed on September 1, 2004, in a sum of NIS 500 million, brought by the liquidators of a company against forty defendants, one of which was the Bank, to the Tel Aviv District Court.

The mediation proceedings between the parties were terminated without success. On March 25, 2013, a decision was given, according to which the evidence proceedings will commence.

Recently, the liquidator has reached a compromise arrangement with certain of the Respondents (which do not include the Bank). The arrangement has not yet been improved. On October 30, 2013, the Court ruled that principal evidence depositions shall be filed within forty-five days after approval of the arrangement by the Court of liquidation.

4.2 Note 19 C 12.3 to the financial statements as of December 31, 2012, described a lawsuit filed on September 12, 2006, against the Bank, Bank Leumi and Bank Hapoalim, as well as a motion for approval of the lawsuit as a class action suit. The Plaintiff assessed the amount claimed at NIS 7 billion in respect of all the defendant banks. The Plaintiff argued that most of the credit to the public is concentrated in the hands of the defendant banks, and that they coordinated among themselves the prices applying to five parameters in everything relating to credit.

On January 21, 2007, the District Court admitted the Plaintiff's motion to recognize the lawsuit as a class action suit. On April 15, 2008, the banks applied to the Supreme Court for permission to appeal the decision of the District Court. On July 28, 2013, the Supreme Court gave a verdict admitting the appeals of the banks and reversed the decision of the District Court which approved the suit as a class action suit.

In accordance with the verdict, the case will be returned to the District Court in order to renew the hearing of the motion for approval of a class action.

4.3 Note 19 C 12.4 to the financial statements as of December 31, 2012, described a lawsuit filed to the Jerusalem District Court on November 23, 2006, together with a motion for its approval as a class action suit against the Bank, Bank Hapoalim and Bank Leumi. The claimants assess the amount of the claim at between NIS 5.2 and NIS 5.6 billion for all the defendants, while they reserve the right to amend the claim brief.

In the claim brief the claimants argue that the defendant banks charge the private household sector interest at an exorbitant rate, which is much higher than the interest rate charged to the commercial and business sectors, this without any economic and commercial justification, with an ostensible existence of a binding arrangement between the banks.

The Bank responded to the motion to approve the claim as a class action suit.

On May 15, 2008, the Court decided to stay the proceedings until a ruling is given in the appeal filed by the banks with respect to the action described in item 4.2 above.

On October 29, 2013, the Plaintiffs filed a motion for renewal of the proceedings in the case, arguing that this claim differs materially from the claim described in section 4.2 above, and therefore the hearing of the said claims should not be combined.

The banks filed their response on November 20, 2013.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

4.4 Note 19 C 12.5 to the financial statements as of December 31, 2012, described a motion filed on June 30, 2008, for the approval of an action as a class action suit against the Bank, Bank Hapoalim and Bank Leumi, was submitted to the Tel Aviv District Court. The core issues of the suit rests on the Plaintiffs' claim that, since the end of the 1990's and possibly even earlier, the three defendant banks created a cartel coordinating the prices of commissions charged to their customers.

The Plaintiffs claim an overall damage for all member of the group of NIS 3.5 billion. The Bank's share in the claimed amount is approx. NIS 770 million.

According to the decision of the District Court of October 7, 2009, the claim will be heard together with the claim described in Section 5.2 hereunder.

On October 7, 2009, the District Court rejected the motions submitted for the in limine dismissal of the claim and instructed that the hearing of this claim should be incorporated with the claim discussed above in item 4.2 above. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the Commissioner's ruling, submitted by the banks to the Antitrust Tribunal (see item 6 hereunder). A further motion for renewal of the proceedings in this case was filed on September 12, 2012. A motion was submitted on January 10, 2013, for a decision in the application for renewal of proceedings.

The case is scheduled for a preliminary hearing on November 28, 2013.

4.5 Note 19 C 12.6 to the financial statements as of December 31, 2012, described a lawsuit filed on October 29, 2009, by two companies against the Bank, MDB and five additional banks (including FIBI), requesting a declarative ruling according to which the defendant banks are not entitled to charge the Claimants with violation interest in the amount of NIS 840 million, but only with an amount of NIS 37 million. Alternatively, the banks are entitled to charge the Claimants only with interest and linkage increments, and accordingly, the accounts of the Claimants should be credited with the difference in the amount of NIS 521 million. The Bank's share in the alleged damage, based on its share in the credit consortium, is approx. 10% and that of MDB is 4%.

A partial ruling was given on July 25, 2013, according to which, the violation interest comprises an agreed compensation. The court ruled that the interest rate agreed by the parties is reasonable, however due to the long Receivership period, the interest rate should be reduced from 3% to 2.5%, for the period from January 1, 2007, until the settlement of the loan in November 2009. On November 3, 2013, a supplementary ruling was given within the framework of which, among other things, it approved the amount of recovery. The share of the Bank and of Mercantile Discount Bank in the recovery is NIS 8 million. The banks are preparing to file an appeal. On November 7, 2013, a temporary stay of execution Order was issued, until submission by the Respondents of their response to the motion filed by the banks for the issue of a stay of execution Order.

4.6 Note 19 C 13.4 to the financial statements as of December 31, 2012, described a lawsuit filed with the Tel Aviv District Court on September 6, 2011, together with a motion for its approval as a class action suit, against Leumi Card Ltd., Bank Leumi Le-Israel Ltd., Israel Credit Cards Ltd., Israel Discount Bank Ltd., FIBI., IsraCard Ltd. and Bank Hapoalim Ltd. (hereinafter together: "the credit card companies and the banks"), claiming that the credit card companies and the banks enjoyed exorbitant commission rates, this due to the fact that the issuer commission over the years comprised a rate higher than the fair rate. The compensation demanded from the credit card companies and the banks amounts to NIS 1 billion.

The claim was not delivered to the Bank or ICC. The Bank has recently been informed that the Court decided on December 6, 2012, to close this case, due to lack of activity.

4.7 Note 19 c 13.3 to the financial statements as of December 31, 2012, described a notice of Clal Pension and Gemel Ltd. ("Clal Pension and Gemel") to the Bank, dated July 26, 2011, of an action together with a motion for approval of the action as a class action suit (hereinafter: "action" and "motion") filed against it and against other provident and further education funds management companies (hereinafter: "the Defendants").

The said action and motion allege unlawful discrimination of members of provident and further education funds by way of charging certain of the members reduced management fees thus preferring them over the rest of the members who do not enjoy or partly enjoy the benefit of reduced management fees.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

Clal Pension and Gemel argue that the Bank had granted indemnification undertaking, relating to the period prior to the sale of the relevant funds.

According to the action and motion, the damage caused to the members whom the Claimant seek to represent was assessed, in respect of the last five years, at between NIS 324 million (the reduction in management fees to the average fees collected by the funds) and NIS 648 million (the reduction in management fees to the minimum fees collected from certain members of the funds).

On June 25, 2013, the Court approved an agreed motion by the Appellants and Responders for the withdrawal of the claim and the motion for its approval as a class action suit.

4.8 Note 19 C 13.5 to the financial statements as of December 31, 2012, described a claim filed on March 7, 2012, with the Tel Aviv District Court together with a motion for approval of the claim as a class action suit, against the Bank, ABS, Bank Hapoalim, FIBI, Bank Leumi, Bank Mizrahi-Tefahot, Casponet, Israel credit cards, Tamir-Fishman Trust Company Ltd. and Verifone Israel Ltd.

The Claimant assesses the amount of the claim at NIS 2.3 billion in respect of all Defendants. The cause of the claim is the restriction imposed on the amount of cash that may be drawn from the automatic teller machines operated by ABS and Casponet.

A delivery of the claim was effected on November 26, 2012. The Bank filed its response on April 21, 2013. In May 2013, the Court decided to rule-out the claim and the motion as far as they relate to Israel Credit Cards Ltd.

The Appellant informed of his intention to delete certain of the Respondents. The Court ruled that the Appellant has to inform by November 24, 2013, which of the Respondents are to be deleted. A preliminary hearing was set for January 21, 2014.

4.9 Note 19 C 13.6 to the financial statements as of December 31, 2012, described a claim filed on May 30, 2012, together with a motion for approval of the suit as a class action suit. The cause of the claim is the charging of customers' accounts with various legal expenses without court approval. In addition, the plaintiff also alleges that the Bank customarily adds the amount of legal expenses that are approved by the courts to the debit balance on customers' accounts, resulting is such amounts being subject to exceptional bank interest which is higher than the interest tariffs prescribed in the Adjudication of Interest and Linkage Law. The plaintiff states that the amount of the claim cannot be estimated at this stage.

The Bank's response to the motion was submitted on November 22, 2012. The Court approved on November 18, 2013, the notice by the Appellants that the hearing of the motion for approval of the claim as a class action suit, will be limited to the dispute as to whether the commission regarding the legal work involved had been lawfully charged.

On November 25, 2013, the plaintiff submitted a motion for withdrawal from the approval motion, with no order for expenses.

4.10 Note 19 C 13.7 to the financial statements as of December 31, 2012, described a claim filed on July 19, 2012, together with a motion for approval of the suit as a class action suit that was filed with the Jerusalem District Court against Discount Mortgage Bank Ltd. (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The Claimants allege that DMB had concealed from its customers the existence of a "transaction permit" (under religious law) thus causing them financial damage. It is also claimed that loans and credit granted by DMB carry interest that includes a punitive component in contradiction to the interest applying under the "transaction permit".

The Claimant fixed the amount of the claim in respect all group members at NIS 538.7 million (for details regarding a claim under similar causes served against the Bank, see Item 4.11 below). In December 2012 a decision was given to combine together the hearing of all the motions requesting the approval of class action suits in the matter of "transaction permit". The Bank's response was submitted on July 15, 2013. A preliminary hearing of the motions was fixed for January 15, 2014.

4.11 Note 19 C 13.8 to the financial statements as of December 31, 2012, described a claim filed on August 16, 2012, together with a motion for approval of the suit as a class action suit, filed with the Jerusalem District Court. The Claimants allege that the Bank had concealed from its customers the existence of a "transaction permit" (under religious law) thus causing them financial damage. It was also argued that loans and credit granted by the Bank carry interest that includes a punitive component in contradiction to the interest applying under the "transaction permit". The Claimant fixed the amount of the claim in respect of all group members at NIS 6,042 million (details regarding a claim under similar causes served against FIBI, were brought in Note 19 C 14 to the financial statements as of December 31, 2012). In December 2012 a decision

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

was given, to combine together the hearing of all the motions requesting the approval of class action suits in the matter of "transaction permit". The Bank's response was submitted on July 15, 2013. A preliminary hearing of the motions was fixed for January 15, 2014.

4.12 Note 19 C 13.10 to the financial statements as of December 31, 2012, described a lawsuit together with a motion for approval of the suit as a class action suit submitted with the Central Region District Court. The claim was filed against Israel Credit Cards Ltd., against Diners Club Israel Ltd. and against two additional companies, on October 31, 2012.

The Claimant alleges that the manner in which the Respondents provided revolving credit to customers through their "YOU" credit card was misleading and misrepresented. The Claimants argue that the Respondents provide revolving credit to holders of "YOU" credit cards charging especially exorbitant interest rates as compared with the accepted interest rates in the case of bank credit, and this without disclosing to the customer the fact that they are granting him credit not asked for, and/or the rate of interest that is being charged in respect for such credit.

The group which the Claimant represents is defined as all consumers who hold "YOU" credit cards and/or those who held such cards since it was first issued in June 2006, and who made use of revolving credit.

The Claimant stated the amount of the claim for all group members at NIS 119.5 million.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

5.1 Note 19 C 13.1 to the financial statements as of December 31, 2012, described a petition for approval of an action as a class action suit filed with the Tel Aviv District Court On June 19, 2000 by two borrowers of DMB against DMB and against the Israel Phoenix Insurance Co. Ltd., where the properties of the borrowers are insured. The action is for the amount of NIS 105 million (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, and that the sum insured was increased in excess of the increase in the Consumer Price Index.

On December 25, 2000, the Court decided that whereas the arguments in this case are similar to those argued in another class action suit, as described in item 12.7 to Note 19 C to the financial statements as of December 31, 2012, the hearing of the said case will be postponed until a decision is given in the other case. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

5.2 Note 19 C 13.2 to the financial statements as of December 31, 2012 described an action filed against the Bank, Bank Leumi, Bank Hapoalim, Mizrahi-Tefahot Bank and the First International Bank ("FIBI") together with a motion to approve the action as a class action suit received by the Bank on May 12, 2009.

The action is based on the statement of the Antitrust Commissioner (see item 6 below) according to which binding arrangements regarding the communication of information with respect to commissions had existed between the defendant banks.

The total damage for all the defendant banks is assessed for the purpose of the action at approximately NIS 1 billion, with no allocation between them.

On October 7, 2009, the District Court rejected the motions submitted for the in limine dismissal of the claim and instructed that the hearing of this claim should be incorporated with the claim discussed above in item 4.4 above. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the Commissioner's ruling, submitted by the banks to the Antitrust Tribunal (see item 6 hereunder). A further motion for renewal of the proceedings in this case was filed on September 12, 2012. A motion was submitted on January 10, 2013, for a decision in the application for renewal of proceedings. The case is fixed for hearing on November 28, 2013.

5.3 Note 19 C 13.9 to the financial statements as of December 31, 2012, described a lawsuit together with a motion for approval of the suit as a class action suit submitted on October 11, 2012, to the Tel Aviv District Court, against the Bank, FIBI, Leumi Bank and Mizrahi Bank.

The matter of the lawsuit is the value date attributed by the banks to payments made by debtors directly to their account at the Debt Execution Office.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

The Claimants argue that at this stage it is not possible to assess the amount of the claim, since in order to do so, specific examinations would have to be made at the banks.

The Bank has to submit its response until November 30, 2013.

5.4 Note 19 C 13.11 to the financial statements as of December 31, 2012, described two lawsuits submitted by the Liquidator of a construction group with the Jerusalem District Court, against the Bank and other parties. One claim, on behalf of one company in the group, is for an amount of NIS 75 million. The other claim, on behalf of another company in the group, is for an amount of NIS 45 million. The said claims were served on the Bank in March 2013.

In both claims it is argued that the Bank and the other defendants enabled the flow of funds from accounts of the said companies to accounts of private companies in the same group. The argument is that the funds in question were the proceeds of bonds which the said companies issued to the public. According to the Liquidator, the Bank and the other defendants were obligated to prevent the transfer of these funds on grounds that these transfers were not made for the benefit of the said companies. The Bank submitted a defense brief in respect of one of the said claims on October 27, 2013 and the defense brief in the second claim is to be submitted by the Bank by December 22, 2013.

5.5 A lawsuit together with a motion for approval of the suit as a class action suit was filed on April 17, 2013, with the Tel-Aviv District Court, against ICC and Castro Models Company Ltd. (hereinafter: "the Respondents").

The claim relates to the marketing of "Wish you card" gift cards. The Claimant alleges that the marketing of the gift cards was made while the Respondents displayed misleading statements and determined prohibited terms in contravention of the provisions of the Consumer Protection Act, 1981, and the regulations under it. The Claimant alleges that the actions of the Respondents had misled him and prevented him from performing operations to which he was legally entitled.

The Claimant stated the amount of the claim for all group members at NIS 213.5 million, on the assumption that the group numbers about 500 thousand customers.

5.6 A lawsuit was filed against the Bank on July 31, 2013, at the Central-Lod District Court, together with a motion for approval of the suit as a class action suit. The Claimant allege that the practice of the Bank is to open foreign currency accounts supplemental to the principal current account without informing the customers and without bringing to their notice the engagement terms including the related cost of managing these accounts. The Claimants further argue that the Bank charges the said foreign currency accounts with minimum ledger fees even if no entries are made in these accounts, and also charges interest on debit balances that might occur in these accounts. The amount of the claim in respect of all class members is stated by the Claimants at NIS 170 million.

The case is scheduled for a preliminary hearing on February 18, 2014.

5.7 A lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit were filed on September 1, 2013, with the Tel Aviv District Court.

The Claimant alleges that Mercantile Discount Bank subjects the granting of a State guaranteed loan, in the maximum amount to which the borrower is entitled (hereinafter – "full amount of the loan") to a deposit by the borrower of an amount equal to one third of the full amount of the loan. It is further claimed that as a result of the above, Mercantile Discount Bank grants the borrower only two thirds of the full amount of the loan while charging him interest on the full amount of the loan.

The Claimant stated the amount of the claim for all class members at NIS 129 million.

It should be noted that a lawsuit based on similar grounds and a motion for its approval as a class action suit in the amount of NIS 253 million, has also been field against a subsidiary of FIBI.

5.8 A lawsuit against the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank, the First International Bank and against the General Managers of the said banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on August 28, 2013, with the Tel Aviv District Court.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers. They claim that a customer who wishes to convert foreign currency is being charged an additional commission to that listed on the transaction price list, which, as alleged, is the difference between the rate at which the respondents buy foreign currency on the inter-bank market and the rate at which they sell the foreign currency to the customer.

Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a binding arrangement in contradiction to the provisions of the Antitrust Act, 1988.

The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 10.5 billion.

On September 30, 2013, the Appellants filed a motion for approval of withdrawal from the claim of the general managers.

5.9 A lawsuit together with a motion for approval of the suit as a class action suit was filed on October 13, 2013, with the Lod District Court against all credit card companies (including ICC) and against several fuel companies.

As argued by the Claimants, under an arrangement between the fuel companies and the credit card companies, a charge of between NIS 150 and NIS 600 was made in respect of each refueling, irrespective of the actual cost of the fuel purchased (hereinafter – "the additional charge"). As alleged, the additional charge was not brought to the notice of the consumers, and even though it was cancelled after several days, it caused the customers to be in a position of short credit and/or short cash in their accounts during the period from the date on which their credit cards were charged with the additional charge and the date on which the additional charge was cancelled.

The Claimants did not state the amount of the claim in relation to the whole group.

5.10 A lawsuit together with a motion for its approval as a class action suit was lodged with the Jerusalem District Court on October 30, 2013, against the Bank, Mercantile Discount Bank, Bank Hapoalim, Union Bank and FIBI. The Plaintiffs argue that the respondent banks charge their customers upon renewal of credit facilities, with a commission in respect of credit and collateral handling, despite the fact that the collateral in respect of the credit facility remains unchanged. It is argued that this practice is in contravention of the law and the contents of the complete pricelist appearing in the first Addendum to the Banking Rules (Customer service) (Commissions).

The Plaintiffs assess the cumulative amount of the claim against all respondent banks for all class members at NIS 2 billion.

6. Note 19 C 15 to the financial statements as of December 31, 2012, described the decision of the Antitrust Commissioner regarding binding arrangements between banks, following an investigation conducted since 2004 by the Antitrust Authority.

On April 26, 2009, the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, was published according to which the Commissioner states that binding arrangements had existed between the banks regarding the communication of information with respect to commissions (the Commissioner's decision).

In the wake of the publication of the Statement, the Bank and the other banks submitted appeals against the statement of the Commissioner. Within the framework of the appeal proceedings, the Bank filed a motion for the dismissal of arguments and attachments to the response of the Commissioner as well as a motion ordering the Commissioner to disclose investigation material not yet submitted.

In its decision of June 18, 2012, the Antitrust Tribunal agreed with the motion filed by the banks and ordered the deletion of certain sections of the response brief submitted by the Antitrust Commissioner with respect to the appeal, which related to commissions and to a matter that were not included in the statement of the Commissioner.

Following the said decision, the Commissioner informed the Bank on July 29, 2012, that he considers to act on his authority and publish a supplemental decision regarding the transfer of information, which was included in the parts that had been deleted from his response brief, according to which such transfers of information constituted binding arrangements. At this stage, no date has been set for submitting the position of the banks in this matter. The Bank is examining the implications of the announcement of the Commissioner and is considering what further action should be taken.

The case was fixed for internal review for December 1, 2013.

At this stage, it is not possible to assess the results of the said proceedings and their implications.

7. Note 19 C item 22 to the financial statements as of December 31, 2012, described the development of events regarding the claim of the past Chairman of the Board for a payment of a fair and proper amount in addition to the amounts paid to him upon retirement from office. The amount claimed by the past Chairman is NIS 17 million.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

On May 7, 2013, the arbitrator, Dr. Joshua Rosensweig, Attorney, ruled that the Bank has to pay to the past Chairman an additional retirement award in the amount of NIS 6.9 million, with the addition of interest and linkage increments from date of retirement (January 31, 2006).

It should be noted that the amount of the provision recorded by the Bank in this respect was higher than the said amount.

8. **Indemnification to Officers of Discount Underwriting Company.** On April 10, 2013, the Bank's Board of Directors approved the granting of a commitment for indemnification to Officers of Discount Underwriting Company, in accordance with the version of indemnification letter accepted at the Bank, as in effect from time to time, with the required changes. The said indemnification commitment shall not apply to whoever acts also as an Officer of Israel Discount Capital Market and Investment, Ltd. and/or the Bank, to whom indemnification has been granted by the Bank.

Indemnification to officers of Discount Manpikim Ltd. In April 2013, the Bank's Board of Directors approved the grant of indemnification to Discount Manpikim Ltd. ("Manpikim"), with respect to indemnification granted by Manpikim to officers of Manpikim, in connection with a shelf prospectus which Manpikim published in May 2013. In addition, the Bank's Board of Directors resolved to grant a general commitment for indemnification that will be provided by the Bank to officers of Manpikim. The text of the indemnification undertaking will be based upon the text of the indemnification letter to officers of the Bank and subsidiaries, approved by the Bank, which includes a limitation regarding the maximum amount of the indemnity.

8. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	Unaudited					
	September 30, 2013					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	1,805	-	-	-	1,805
Total	**-**	**1,805**	**-**	**-**	**-**	**1,805**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,805				
B. ALM derivatives[1][2]						
Futures contracts	-	156	-	-	-	156
Forward contracts	6,163	5,438	19,601	-	-	31,202
Marketable option contracts						
Options written	-	-	1,023	-	-	1,023
Options purchased	-	-	1,070	-	-	1,070
Other option contracts						
Options written	-	700	9,198	265	-	10,163
Options purchased	-	1,000	9,266	*-	-	10,266
Swaps	-	73,552	53,195	-	-	126,747
Total	**6,163**	**80,846**	**93,353**	**265**	**-**	**180,627**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	35,678				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	34	34
Forward contracts	-	-	2,346	-	26	2,372
Marketable option contracts						
Options written	-	-	112	3,947	-	4,059
Options purchased	-	-	112	3,947	-	4,059
Other option contracts						
Options written	-	90	251	327	154	822
Options purchased	-	93	290	329	154	866
Swaps	-	4,792	11	-	-	4,803
Total	**-**	**4,975**	**3,122**	**8,550**	**368**	**17,015**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,396				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,311			

* An amount lower than NIS 1 million

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts

(2) Derivatives comprising a part of the asset and liability management system which were not designated for hedging relations.

8. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	Unaudited					
	September 30, 2012					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	1,541	-	-	-	1,541
Total	**-**	**1,541**	**-**	**-**	**-**	**1,541**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,541				
B. ALM derivatives[1][2]						
Futures contracts	-	[3]-	-	-	-	-
Forward contracts	3,100	5,456	13,773	-	-	22,329
Marketable option contracts						
Options written	-	-	557	-	-	557
Options purchased	-	-	556	-	-	556
Other option contracts						
Options written	-	300	8,738	-	-	9,038
Options purchased	-	600	8,326	*-	-	8,926
Swaps	-	74,378	59,598	-	-	133,976
Total	**3,100**	**80,734**	**91,548**	**-**	**-**	**175,382**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	37,048				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	61	61
Forward contracts	-	-	1,124	-	35	1,159
Marketable option contracts						
Options written	-	-	6	2,917	*-	2,923
Options purchased	-	-	6	2,917	*-	2,923
Other option contracts						
Options written	-	161	659	239	155	1,214
Options purchased	-	165	676	241	155	1,237
Swaps	-	4,921	124	-	-	5,045
Total	**-**	**5,247**	**2,595**	**6,314**	**406**	**14,562**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,460				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,834			

* An amount lower than NIS 1 million

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the asset and liability management system which were not designated for hedging relations.

(3) Correction of par value calculation.

8. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	Audited					
	December 31, 2012					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[(1)]						
Swaps	-	1,525	-	-	-	1,525
Total	**-**	**1,525**	**-**	**-**	**-**	**1,525**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,525				
B. ALM derivatives[(1)(2)]						
Futures contracts	-	30	-	-	-	30
Forward contracts	3,723	6,529	12,043	-	-	22,295
Marketable option contracts						
Options written	-	-	465	-	-	465
Options purchased	-	-	465	-	-	465
Other option contracts						
Options written	-	900	7,444	-	-	8,344
Options purchased	-	1,600	7,243	*-	-	8,843
Swaps	-	67,914	47,798	-	-	115,712
Total	**3,723**	**76,973**	**75,458**	**-**	**-**	**156,154**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	35,514				
C. Other derivatives[(1)]						
Futures contracts	-	-	-	-	8	8
Forward contracts	-	-	838	-	16	854
Marketable option contracts						
Options written	-	-	4	5,552	3	5,559
Options purchased	-	-	4	5,552	3	5,559
Other option contracts						
Options written	-	154	242	233	138	767
Options purchased	-	157	244	233	138	772
Swaps	-	4,191	147	-	-	4,338
Total	**-**	**4,502**	**1,479**	**11,570**	**306**	**17,857**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,314				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			1,549			

* An amount lower than NIS 1 million

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts

(2) Derivatives comprising a part of the asset and liability management system which were not designated for hedging relations.

8. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Unaudited					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
	September 30, 2013					
2. Gross fair value of derivative instruments						
A. Hedging derivatives						
Positive gross fair value	-	41	-	-	-	41
Negative gross fair value	-	32	-	-	-	32
B. ALM derivatives(1)						
Positive gross fair value	8	2,255	1,017	-	-	3,280
Negative gross fair value	77	2,543	1,608	1	-	4,229
C. Other derivatives						
Positive gross fair value	-	36	23	58	3	120
Negative gross fair value	-	36	36	58	3	133
D.Total*						
Positive gross fair value(2)	8	2,332	1,040	58	3	3,441
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance of assets stemming from derivative instruments(2)	8	2,332	1,040	58	3	3,441
Of which: Balance sheet amount of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	16	47	1	64
Negative gross fair value (3)	77	2,611	1,644	59	3	4,394
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance of liabilities stemming from derivative instruments(3)	77	2,611	1,644	59	3	4,394
Of which: Balance sheet amount of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	192	43	-	235
	September 30, 2012					
A. Hedging derivatives						
Positive gross fair value	-	1	-	-	-	1
Negative gross fair value	-	65	-	-	-	65
B. ALM derivatives(1)						
Positive gross fair value	8	2,154	1,058	**-	-	3,220
Negative gross fair value	73	2,408	1,416	-	-	3,897
C. Other derivatives						
Positive gross fair value	-	59	11	62	6	138
Negative gross fair value	-	54	14	61	6	135

For footnotes see next page.

8. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments (continued)

	Audited					
	December 31, 2012					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives						
Positive gross fair value	-	1	-	-	-	1
Negative gross fair value	-	63	-	-	-	63
B. ALM derivatives(1)						
Positive gross fair value	12	2,433	1,150	-	-	3,595
Negative gross fair value	76	2,748	1,657	-	-	4,481
C. Other derivatives						
Positive gross fair value	-	52	8	111	3	174
Negative gross fair value	-	51	14	110	3	178
D.Total*						
Positive gross fair value(2)	12	2,486	1,158	111	3	3,770
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance of assets stemming from derivative instruments(2)	12	2,486	1,158	111	3	3,770
Of which: Balance sheet amount of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	2	15	101	1	119
Negative gross fair value (3)	76	2,862	1,671	110	3	4,722
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance of liabilities stemming from derivative instruments(3)	76	2,862	1,671	110	3	4,722
Of which: Balance sheet amount of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	155	99	-	254

* For details regarding the implementation of the instructions of the Supervisor of Banks regarding the setoff of assets and liabilities, see Note 1 E 2.

** An amount lower than NIS 1 million

Footnotes:

(1) Derivatives comprising a part of the asset and liability management system which were not designated for hedging relations.

(2) Of which, NIS 49 million (September 30, 2012: NIS 29 million; December 31, 2012: NIS 43 million) of positive gross fair value of embedded derivative instruments.

(3) Of which, NIS 13 million (September 30, 2012: NIS 16 million; December 31, 2012: NIS 14 million) of negative gross fair value of embedded derivative instruments.

8. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative Instrument credit risk based on the counterparty to the contract, on a consolidated basis*

	Unaudited					
	September 30, 2013					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
Balance sheet amount of assets regarding derivative instruments[1]	38	2,639	10	18	736	3,441
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,463)	(3)	(1)	(212)	(2,680)
Credit risk mitigation in respect of cash collateral received	-	(51)	-	-	-	(51)
Net amount of assets in respect of derivative instruments	**37**	**125**	**7**	**17**	**524**	**710**
Off-balance sheet credit risk in respect of derivative instruments[3]	-	291	52	87	1,323	1,753
Total credit risk in respect of derivative instruments	**37**	**416**	**59**	**104**	**1,847**	**2,463**
Balance sheet amount of liabilities in respect of derivative instruments[2]	30	3,623	12	1	728	4,394
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,463)	(3)	(1)	(212)	(2,680)
Pledged cash collateral	-	(846)	(8)	-	-	(854)
Net amount of liabilities in respect of derivative instruments	**29**	**314**	**1**	**-**	**516**	**860**

	Unaudited					
	September 30, 2012					
Gross positive fair value of derivative instruments[1]	31	2,845	15	-	468	3,359
Net of set-off agreements	7	34	-	-	35	76
Balance of assets stemming from derivative instruments	24	2,811	15	-	433	3,283
Off-balance sheet credit risk in respect of derivative instruments[3]	-	508	167	81	858	1,614
Total credit risk in respect of derivative instruments	**24**	**3,319**	**182**	**81**	**1,291**	**4,897**

For footnotes see next page.

8. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative Instrument credit risk based on the counterparty to the contract, on a consolidated basis* (continued)

	Audited					
	December 31, 2012					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
Balance sheet amount of assets regarding derivative instruments(1)	62	3,165	11	-	532	3,770
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,944)	(1)	-	(149)	(3,095)
Credit risk mitigation in respect of cash collateral received	-	(49)	(2)	-	-	(51)
Net amount of assets in respect of derivative instruments	**61**	**172**	**8**	**-**	**383**	**624**
Off-balance sheet credit risk in respect of derivative instruments(3)	-	309	37	81	837	1,264
Total credit risk in respect of derivative instruments	**61**	**481**	**45**	**81**	**1,220**	**1,888**
Balance sheet amount of liabilities in respect of derivative instruments(2)	43	3,903	5	15	756	4,722
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,944)	(1)	-	(149)	(3,095)
Pledged cash collateral	-	(457)	-	(1)	-	(458)
Net amount of liabilities in respect of derivative instruments	**42**	**502**	**4**	**14**	**607**	**1,169**

* For details regarding the implementation of the instructions of the Supervisor of Banks regarding the setoff of assets and liabilities, see Note 1 E 2.

Footnotes:

(1) Of which, a balance sheet amount of standalone derivative instruments in the amount of NIS 3,392 million (September 30, 2012:NIS 3,254 million; December 31, 2012:NIS 3,727 million), included in the item "Assets in respect of derivative instruments".

(2) Of which, a balance sheet amount of standalone derivative instruments in the amount of NIS 4,381 million (September 30, 2012:NIS 4,005 million; December 31, 2012:NIS 4,708 million), included in the item "Liabilities in respect of derivative instruments".

(3) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and the balance sheet amount of assets in respect of derivative instruments of the borrower.

8. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

C. Due dates - Par value: consolidated period end balances

	Unaudited				
	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	September 30, 2013				
Interest rate contracts					
Shekel/CPI	884	3,182	1,745	352	6,163
Other	6,169	15,495	43,836	22,126	87,626
Foreign currency contracts	55,553	34,265	4,761	4,207	98,786
Contracts on shares	8,010	326	479	-	8,815
Commodities and other contracts	38	134	196	-	368
Total	**70,654**	**53,402**	**51,017**	**26,685**	**201,758**
	Unaudited				
	September 30, 2012				
Total	**(1)75,201**	**(1)58,283**	**(1)34,883**	**25,952**	**194,319**
	Audited				
	December 31, 2012				
Total	**73,749**	**40,673**	**38,363**	**24,300**	**177,085**

Footnote:

(1) Corrected computation of the nominal value of "Futures" transactions.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. Composition - consolidated

	Unaudited				
	September 30, 2013				
	Stated balance	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets:					
Cash and deposits with banks	22,758	6,836	-	15,939	22,775
Securities[2]	47,124	29,148	17,449	776	47,373
Securities borrowed or purchased under resale agreements	312	-	-	312	312
Credit to the public, net	116,498	2,113	6	114,805	116,924
Credit to the Government	1,856	-	-	1,860	1,860
Assets in respect of derivative instruments	3,392	77	2,678	637	3,392
Other financial assets	1,666	9	-	1,657	1,666
Total financial assets	**[3]193,606**	**38,183**	**20,133**	**135,986**	**194,302**
Financial liabilities:					
Deposits from the public	152,111	17,628	97,382	37,592	152,602
Deposits from banks	3,833	23	3,136	718	3,877
Deposits from the Government	1,019	3	815	212	1,030
Securities loaned or sold under repurchase agreements	4,227	-	-	4,652	4,652
Subordinated capital notes	12,089	11,029	340	2,419	13,788
Liabilities in respect of derivative instruments	4,381	77	3,756	548	4,381
Other financial liabilities	7,510	259	13	7,238	7,510
Total financial liabilities	**[3]185,170**	**29,019**	**105,442**	**53,379**	**187,840**
Off-balance sheet financial instruments					
Transactions involving credit risk	82	-	-	82	82

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 2.

(3) Of which: assets and liabilities in the amount of NIS 53,297 million and NIS 51,854 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 9 B - 9 C.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. Composition - consolidated (continued)

	Unaudited				
	September 30, 2012				
	Stated balance	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
	in NIS millions				
Financial assets:					
Cash and deposits with banks	27,544	7,499	-	20,002	27,501
Securities[(2)]	45,334	[(4)]25,836	[(4)]19,270	[(4)]613	45,719
Securities borrowed or purchased under resale agreements	678	-	-	678	678
Credit to the public, net	119,040	1,070	-	118,551	119,621
Credit to the Government	1,734	-	-	1,712	1,712
Assets in respect of derivative instruments	3,254	68	2,788	398	3,254
Other financial assets	1,225	3	29	1,193	1,225
Influence of deduction agreements	(76)	-	-	-	(76)
Total financial assets	**[(3)]198,733**	**34,476**	**22,087**	**143,147**	**199,634**
Financial liabilities:					
Deposits from the public	154,688	15,593	[(4)]100,417	[(4)]39,121	155,131
Deposits from banks	5,412	1,420	3,362	686	5,468
Deposits from the Government	1,059	669	177	220	1,066
Securities loaned or sold under repurchase agreements	5,752	-	-	6,421	6,421
Subordinated capital notes	12,422	10,647	95	2,976	13,718
Liabilities in respect of derivative instruments	4,005	69	3,410	526	4,005
Other financial liabilities	7,865	645	16	7,204	7,865
Influence of deduction agreements	(76)	-	-	-	(76)
Total financial liabilities	**[(3)]191,127**	**29,043**	**107,477**	**57,154**	**193,598**
Off-balance sheet financial instruments					
Transactions involving credit risk	57	-	-	57	57

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 2.

(3) Of which: assets and liabilities in the amount of NIS 54,104 million and NIS 42,965 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 9 B - 9 C.

(4) Reclassified.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. Composition - consolidated (continued)

	Audited				
	December 31, 2012				
	Stated balance	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
	in NIS millions				
Financial assets:					
Cash and deposits with banks	24,100	7,973	-	16,116	24,089
Securities[(2)]	46,001	[(5)]27,732	[(5)]18,072	[(5)]645	46,449
Securities borrowed or purchased under resale agreements	387	-	-	387	387
Credit to the public, net	117,611	1,528	5	116,528	118,061
Credit to the Government	1,696	-	-	1,676	1,676
Assets in respect of derivative instruments	3,727	112	[(5)]3,244	[(5)]371	3,727
Other financial assets	1,108	14	[(5)]-	[(5)]1,094	1,108
Influence of deduction agreements	[(4)]-	-	-	-	[(4)]-
Total financial assets	**[(3)]194,630**	**37,359**	**21,321**	**136,817**	**195,497**
Financial liabilities:					
Deposits from the public	151,935	16,888	[(5)]96,908	[(5)]38,602	152,398
Deposits from banks	3,720	102	3,088	569	3,759
Deposits from the Government	1,005	3	788	226	1,017
Securities loaned or sold under repurchase agreements	5,452	-	-	6,067	6,067
Subordinated capital notes	12,284	11,032	83	2,847	13,962
Liabilities in respect of derivative instruments	4,708	113	4,041	554	4,708
Other financial liabilities	7,652	356	14	7,282	7,652
Influence of deduction agreements	[(4)]-	-	-	-	[(4)]-
Total financial liabilities	**[(3)]186,756**	**28,494**	**104,922**	**56,147**	**189,563**
Off-balance sheet financial instruments					
Transactions involving credit risk	71	-	-	71	71

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 2.

(3) Of which: assets and liabilities in the amount of NIS 53,235 million and NIS 46,482 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 9 B - 9 C.

(4) Reclassified, see note 1 E 2.

(5) Reclassified.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited					
	September 30, 2013					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Book value
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	20,885	727	-	-	21,612	21,612
Of foreign governments	138	835	-	-	973	973
Of Israeli financial institutions	578	59	-	-	637	637
Of foreign financial institutions	34	3,144	-	-	3,178	3,178
Mortgage-backed-securities and Assets -backed-securities	-	8,828	-	-	8,828	8,828
Of others in Israel	550	135	-	-	685	685
Of others abroad	-	60	-	-	60	60
Shares	90	-	-	-	90	90
Total available-for-sale securities	**22,275**	**13,788**	**-**	**-**	**36,063**	**36,063**
Trading Securities						
Of the Israeli Government	2,736	-	-	-	2,736	2,736
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	10	-	-	-	10	10
Of foreign financial institutions	-	11	-	-	11	11
Mortgage-backed-securities and Assets -backed-securities	-	43	-	-	43	43
Of others in Israel	48	-	-	-	48	48
Of others abroad	6	2	-	-	8	8
Shares	-	2	-	-	2	2
Total trading securities	**2,800**	**62**	**-**	**-**	**2,862**	**2,862**
Credit to the public in respect of securities loaned	2,113	6	-	-	2,119	2,119
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	8	-	8	8
Other Interest Rate Contracts	-	2,269	63	-	2,332	2,332
Foreign Exchange Contracts	29	396	566	-	991	991
Shares Contracts	48	10	-	-	58	58
Commodity and other Contracts	-	3	-	-	3	3
Total assets in respect of derivative instruments	77	2,678	637	-	3,392	3,392
Other	-	-	49	-	49	49
Assets in respect of the "Maof" market operations	9	-	-	-	9	9
Total assets	**27,274**	**16,534**	**686**	**-**	**44,494**	**44,494**
Liabilities						
Deposits from the public in respect of securities borrowed	1,255	8	-	-	1,263	1,263
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	77	-	77	77
Other Interest Rate Contracts	-	2,608	-	-	2,608	2,608
Foreign Exchange Contracts	28	1,145	471	-	1,644	1,644
Shares Contracts	49	2	-	-	51	51
Commodity and other Contracts	-	1	-	-	1	1
Total liabilities in respect of derivative instruments	77	3,756	548	-	4,381	4,381
Other	-	13	-	-	13	13
Commitments in respect of the "Maof" market operations	9	-	-	-	9	9
Short sales of securities	250	-	-	-	250	250
Total liabilities	**1,591**	**3,777**	**548**	**-**	**5,916**	**5,916**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Unaudited					
	September 30, 2012					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Book value
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	19,764	863	-	-	20,627	20,627
Of foreign governments	152	674	-	-	826	826
Of Israeli financial institutions	744	3	-	-	747	747
Of foreign financial institutions	38	2,544	-	-	2,582	2,582
Mortgage-backed-securities and Assets -backed-securities	-	10,801	-	-	10,801	10,801
Of others in Israel	380	221	-	-	601	601
Of others abroad	-	58	-	-	58	58
Shares	23	**-	-	-	23	23
Total available-for-sale securities	**21,101**	**15,164**	**-**	**-**	**36,265**	**36,265**
Trading Securities						
Of the Israeli Government	1,185	-	-	-	1,185	1,185
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	9	-	-	-	9	9
Of foreign financial institutions	-	42	-	-	42	42
Mortgage-backed-securities and Assets -backed-securities	-	47	-	-	47	47
Of others in Israel	23	-	-	-	23	23
Of others abroad	-	2	-	-	2	2
Shares	1	1	-	-	2	2
Total trading securities	**1,218**	**96**	**-**	**-**	**1,314**	**1,314**
Credit to the public in respect of securities loaned	1,070	-	-	-	1,070	1,070
Assets in respect of derivative instruments*						
Shekel/CPI Interest Rate Contracts	-	-	8	-	8	8
Other Interest Rate Contracts	1	2,135	78	-	2,214	2,214
Foreign Exchange Contracts	8	720	312	(69)	971	971
Shares Contracts	57	5	-	(6)	56	56
Commodity and other Contracts	2	4	-	(1)	5	5
Total assets in respect of derivative instruments	68	2,864	398	(76)	3,254	3,254
Other	-	-	29	-	29	29
Assets in respect of the "Maof" market operations	3	-	-	-	3	3
Total assets	**23,460**	**18,124**	**427**	**(76)**	**41,935**	**41,935**
Liabilities						
Deposits from the public in respect of securities borrowed	339	11	-	-	350	350
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	73	-	73	73
Other Interest Rate Contracts	2	2,518	-	-	2,520	2,520
Foreign Exchange Contracts	8	965	453	(69)	1,357	1,357
Shares Contracts	57	1	-	(6)	52	52
Commodity and other Contracts	2	2	-	(1)	3	3
Total liabilities in respect of derivative instruments	69	3,486	526	(76)	4,005	4,005
Other	-	16	-	-	16	16
Commitments in respect of the "Maof" market operations	3	-	-	-	3	3
Short sales of securities	642	-	-	-	642	642
Total liabilities	**1,053**	**3,513**	**526**	**(76)**	**5,016**	**5,016**

*Derivative instruments, the credit risk in their respect is determined on the basis of unobservable inputs, have been moved from Level 2 to Level 3, in accordance with the clarification of the Supervisor of Banks.

** Reclassified.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited					
	December 31, 2012					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements*	Total fair value	Book value
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	19,760	850	-	-	20,610	20,610
Of foreign governments	238	679	-	-	917	917
Of Israeli financial institutions	680	49	-	-	729	729
Of foreign financial institutions	36	2,531	-	-	2,567	2,567
Mortgage-backed-securities and Assets -backed-securities	-	9,754	-	-	9,754	9,754
Of others in Israel	499	206	-	-	705	705
Of others abroad	-	74	-	-	74	74
Shares	59	**-	-	-	59	59
Total available-for-sale securities	**21,272**	**14,143**	**-**	**-**	**35,415**	**35,415**
Trading Securities						
Of the Israeli Government	2,822	-	-	-	2,822	2,822
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	19	-	-	-	19	19
Of foreign financial institutions	-	33	-	-	33	33
Mortgage-backed-securities and Assets -backed-securities	-	53	-	-	53	53
Of others in Israel	18	-	-	-	18	18
Of others abroad	-	2	-	-	2	2
Shares	1	1	-	-	2	2
Total trading securities	**2,860**	**93**	**-**	**-**	**2,953**	**2,953**
Credit to the public in respect of securities loaned	1,528	5	-	-	1,533	1,533
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	12	-	12	12
Other Interest Rate Contracts	-	2,406	80	-	2,486	2,486
Foreign Exchange Contracts	6	***830	***279	-	1,115	1,115
Shares Contracts	106	5	-	-	111	111
Commodity and other Contracts	-	3	-	-	3	3
Total assets in respect of derivative instruments	112	3,244	371	-	3,727	3,727
Other	-	-	***43	-	43	43
Assets in respect of the "Maof" market operations	14	-	-	-	14	14
Total assets	**25,786**	**17,485**	**414**	**-**	**43,685**	**43,685**
Liabilities						
Deposits from the public in respect of securities borrowed	694	10	-	-	704	704
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	76	-	76	76
Other Interest Rate Contracts	-	2,856	-	-	2,856	2,856
Foreign Exchange Contracts	7	1,185	478	-	1,670	1,670
Shares Contracts	106	-	-	-	106	106
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	113	4,041	554	-	4,708	4,708
Other	-	14	-	-	14	14
Commitments in respect of the "Maof" market operations	14	-	-	-	14	14
Short sales of securities	342	-	-	-	342	23
Total liabilities	**1,163**	**4,065**	**554**	**-**	**5,782**	**5,463**

* Reclassified, see note 1 E 2.
** Reclassified.
***Derivative instruments, the credit risk in their respect is determined on the basis of unobservable inputs, have been moved from Level 2 to Level 3, in accordance with the clarification of the Supervisor of Banks.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	Unaudited					
	September 30, 2013					
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended September 30, 2013	Profit (Loss) for the six months ended September 30, 2013
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,832	1,832	(21)	(194)
Other	-	11	5	16	-	-

	Unaudited					
	September 30, 2012					
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended September 30, 2012	Profit (Loss) for the six months ended September 30, 2012
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	*2,249	2,249	(203)	*(352)
Other	-	12	-	12	(2)	(2)

* Reclassified - change in the contents of collateral-contingent credit presented in the framework of the item.

	Audited				
	December 31, 2012				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2012
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	*1,913	1,913	*(412)
Other	-	12	-	12	(2)

* Reclassified - change in the contents of collateral-contingent credit presented in the framework of the item.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 – Consolidated

1. For a period of three months ended September 30, 2013:

	Unaudited							
	Fair value as at June 30, 2013	Total realized and non realized gains (losses) included in the statement of income	Issuences	Acquisitions	Clearings	Transfers to or from level 3	Fair value as at September 30, 2013	Non realized gains (losses) in respect of held instruments as at September 30, 2013
	in NIS millions							
Net Liabilities in respect of derivative instruments(2)								
Shekel/CPI Interest Rate Contracts	59	(1)(10)	-	-	-	-	69	(1)(9)
Foreign Exchange Contracts	329	(1)(15)	-	-	18	-	326	(1)(17)

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income".
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been reclassified to Level 3, in accordance with a clarification of the Supervisor of Banks.

2. For a period of three months ended September 30, 2012:

	Unaudited							
	Fair value as at June 30, 2012	Total realized and non realized gains (losses) included in the statement of income	Issuences	Acquisitions	Clearings	Transfers to or from level 3	Fair value as at September 30, 2012	Non realized gains (losses) in respect of held instruments as at September 30, 2012
	in NIS millions							
Net Liabilities in respect of derivative instruments(2)								
Shekel/CPI Interest Rate Contracts	69	(1)2	-	-	2	-	65	(1)1
Foreign Exchange Contracts	643	(1)(18)	-	-	241	-	420	(1)(144)

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income".
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been reclassified to Level 3, in accordance with a clarification of the Supervisor of Banks.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 – Consolidated (continued)

3. For a period of nine months ended September 30, 2013:

	Fair value as at December 31, 2012	Total realized and unrealized gains (losses) included in the statement of income	Issuences	Acquisitions	Clearings	Transfers to or from level 3	Fair value as at September 30, 2013	Unrealized gains (losses) in respect of held instruments as at September 30, 2013
	Unaudited							
	in NIS millions							
Net Liabilities in respect of derivative instruments[(2)]								
Shekel/CPI Interest Rate Contracts	64	[(1)](17)	-	-	12	-	69	[(1)](13)
Foreign Exchange Contracts	433	[(1)](28)	-	-	135	-	326	[(1)](35)

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income"
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been reclassified to Level 3, in accordance with a clarification of the Supervisor of Banks.

4. For a period of nine months ended September 30, 2012:

	Fair value as at December 31, 2011	Total realized and unrealized gains (losses) included in the statement of income	Issuences	Acquisitions	Clearings	Transfers to or from level 3	Fair value as at September 30, 2012	Unrealized gains (losses) in respect of held instruments as at September 30, 2012
	Unaudited							
	in NIS millions							
Net Liabilities in respect of derivative instruments[(2)]								
Shekel/CPI Interest Rate Contracts	77	[(1)](7)	-	-	19	-	65	[(1)](9)
Foreign Exchange Contracts	814	[(1)]33	-	-	333	28	420	[(1)](99)

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income".
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been reclassified to Level 3, in accordance with a clarification of the Supervisor of Banks.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 – Consolidated (continued)

5. For the year ended December 31, 2012:

	Audited							
	Fair value as at December 31, 2011	Total realized and unrealized gains (losses) included in the statement of income	Issuences	Acquisitions	Clearings	Transfers to or from level 3	Fair value as at December 31, 2012	Unrealized gains (losses) in respect of held instruments as at December 31, 2012
	in NIS millions							
Net Liabilities in respect of derivative instruments[(2)]								
Shekel/CPI Interest Rate Contracts	77	[(1)](12)	-	-	25	-	64	[(1)](10)
Foreign Exchange Contracts	814	[(1)](14)	-	-	367	28	433	[(1)](146)

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income".
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been reclassified to Level 3, in accordance with a clarification of the Supervisor of Banks.

D. Transfers between hierarchy levels of fair value

No transfers between levels of the fair value hierarchy were made in the first nine months of 2013.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Unaudited			
	Fair value as at September 30, 2013	Valuation Techniques	Unobservable inputs	Range of Inputs (Weighted Average)
	In NIS millions			In %
Impaired credit the collection of which is collateral dependent	1,832	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	5	Assessments and evaluation	Real estate market inputs	
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	69	Discounted cash flow	One year period inflation expectations	0.94%-3.54% (1.69%)
Foreign Exchange Contracts	326	Discounted cash flow	One year period inflation expectations	0.90%-3.54% (1.51%)

	Unaudited			
	Fair value as at September 30, 2012	Valuation Techniques	Unobservable inputs	Range of Inputs (Weighted Average)
	In NIS millions			In %
Impaired credit the collection of which is collateral dependent	*2,249	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	65	Discounted cash flow	One year period inflation expectations	1.64%-5.74% (2.41%)
Foreign Exchange Contracts	420	Discounted cash flow	One year period inflation expectations	1.54%-5.73% (2.66%)

	Audited			
	Fair value as at December 31, 2012	Valuation Techniques	Unobservable inputs	Range of Inputs (Weighted Average)
	In NIS millions			In %
Impaired credit the collection of which is collateral dependent	*1,913	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	64	Discounted cash flow	One year period inflation expectations	0.34%-2.38% (1.66%)
Foreign Exchange Contracts	433	Discounted cash flow	One year period inflation expectations	0.32%-2.39% (1.77%)

* Reclassified - change in the contents of collateral - contingent credit presented in the framework of the item.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are expectations of inflation up to one year.

As the inflation forecasts rise (fall) and the Bank commits to pay the index-linked amount, so the fair value falls (rises). As the inflation forecasts rise (fall) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value rises (falls).

10. INTEREST INCOME AND EXPENSES - CONSOLIDATED

	Unaudited			
	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	in NIS millions			
A. Interest Income[2]				
Credit to the public	1,466	[4]1,577	4,145	[4]4,669
Credit to the Governments	24	15	39	36
Deposits with the Bank of Israel and cash	34	103	139	326
Deposits with Banks	12	13	42	54
Securities borrowed or purchased under resale agreements	[5]-	2	3	5
Bonds[1]	324	357	899	1,097
Other assets	5	[4]9	24	23
Total interest income	**1,865**	**2,076**	**5,291**	**6,210**
B. Interest Expenses[2]				
Deposits from the public	(438)	(612)	(1,262)	(1,861)
Deposits from the Government	(2)	(3)	(7)	(9)
Deposits from banks	(15)	(17)	(51)	(74)
Securities loaned or sold under repurchase agreements	(39)	(55)	(128)	(177)
Subordinated capital notes	(274)	(242)	(655)	(687)
Other liabilities	(3)	(5)	(9)	[4](9)
Total interest expenses	**(771)**	**(934)**	**(2,112)**	**(2,817)**
Interest Income, Net	**1,094**	**1,142**	**3,179**	**3,393**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:				
Interest income[3]	(11)	(11)	53	(24)
D. Accrual basis, interest income from bonds:				
Held-to-maturity	81	75	210	210
Available for-sale	224	267	620	822
Trading	19	15	69	65
Total included in interest income	**324**	**357**	**899**	**1,097**
Footnotes:				
(1) Financing income generated by mortgage backed securities (MBS) - in US $ millions	10	16	28	56
Financing income generated by mortgage backed securities (MBS) - in NIS millions	37	66	102	216

(2) Including the effective component of hedging relationships.
(3) Details of the effect of hedge derivative instruments on subsection A.
(4) Reclassified, see Note 1 D 2, subsection (2).
(5) An amount lower than NIS 1 million.

11. NON-INTEREST FINANCING INCOME - CONSOLIDATED

	Unaudited			
	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	in NIS millions			
A. Non-interest financing income from operations not for trading purposes				
1. From operations in derivative instruments				
Net income (expenses) in respect of ALM derivative instruments[3]	(74)	1	(516)	117
Total from operations in derivative instruments	**(74)**	**1**	**(516)**	**117**
2. From investments in bonds:				
Gains on sale of available-for-sale bonds	74	106	377	241
Losses on sale of available-for-sale bonds	(3)	(3)	(5)	(9)
Provision for decline in value of available-for-sale bonds	-	(2)	(3)	(17)
Total from investments in bonds	**71**	**101**	**369**	**215**
3. Net exchange rate differences	**76**	**(36)**	**525**	**(139)**
4. Net profit (losses) from investments in shares:				
Gains on sale of shares available-for-sale	6	14	87	69
Losses on sale of available-for-sale shares	(1)	-	(9)	-
Provision for decline in value of available-for-sale shares	(3)	-	(8)	(11)
Dividends from available-for-sale shares	12	1	19	12
Profit on sale of shares and activities of affiliated companies	-	-	8	-
Total investment in shares	**14**	**15**	**97**	**70**
5. Net income (loss) on the sale of loans	**1**	**-**	**12**	**(1)**
Total non-interest financing income from operations not for trading purposes	**88**	**81**	**487**	**262**
B. Non-interest financing income from operations for trading purposes[4]:				
Net income in respect of other derivative instruments	6	[6]13	17	[6]24
Net realized and non-realized income (loss) on adjustment of trading bonds to fair value[1]	(5)	1	11	9
Net realized and non-realized income (loss) on adjustment of trading shares to fair value[2]	1	(1)	1	(2)
Total from trading operations[5]	**2**	**13**	**29**	**31**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:				
Interest rate exposure	(1)	11	21	24
Share exposure	3	[6]2	8	[6]7
Total, according to risk exposure	**2**	**13**	**29**	**31**
Total non-interest financing income	**90**	**94**	**516**	**293**
Footnotes:				
(1) Of which, a part of the income (losses) relating to trading bonds that are still on hand at balance sheet date	8	(1)	4	(3)
(2) Of which, a part of the income (losses) relating to trading shares that are still on hand at balance sheet date	1	(1)	1	[7]-

(3) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations
(4) Including exchange rate differences from trading operations
(5) For interest income on investments in trading bonds, see Note 10, above.
(6) Reclassified.
(7) An amount lower than NIS 1 million.

12. BUSINESS SEGMENTS – CONSOLIDATED

General. Equity is being allocated to each segment according to risk assets of the particular segment, in respect of which the segment is credited with theoretical interest. The return of each segment is computed according to the amount of equity allocated to the segment. As detailed in Note 31 B 3 to the financial statements as of December 31, 2012, in 2012 the equity allocated to the various segments was at the rate of 7.5%. Beginning with January 1, 2013, equity is allocated to the different segments at the rate of 8%, in accordance with goals determined by the Board of Directors.

	Unaudited							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
	For the three months ended September 30, 2013							
Interest income, net								
- From external sources	321	186	352	184	(11)	2	60	1,094
- Intersegmental	(26)	1	(104)	(50)	91	-	88	-
Total Interest income, net	295	187	248	134	80	2	148	1,094
Non-interest financing income	5	1	7	3	-	10	64	90
Commissions and Other income	394	128	106	46	67	1	7	749
Total income	**694**	**316**	**361**	**183**	**147**	**13**	**219**	**1,933**
Credit loss expenses	11	27	67	58	2	-	6	171
Net Income (loss) Attributed to the bank's shareholders	**(3)**	**56**	**66**	**18**	**8**	**6**	**125**	**276**
Return on equity (percentage)	**(0.4)**	**25.5**	**6.8**	**4.1**	**7.3**	**22.3**	**20.9**	**9.5**
Average Assets	37,470	12,825	40,919	18,358	4,204	1,029	81,888	196,693
Average Liabilities	68,408	17,071	22,282	9,336	33,076	751	33,606	184,530
	For the three months ended September 30, 2012[1]							
Interest income, net								
- From external sources	53	185	395	207	(31)	1	332	1,142
- Intersegmental	322	13	(117)	(57)	132	-	(293)	-
Total Interest income, net	375	198	278	150	101	1	39	1,142
Non-interest financing income	[2]6	[2]3	[2]12	2	-	13	58	94
Commissions and Other income	[2]390	[2]122	[2]129	46	60	1	18	766
Total income	**771**	**323**	**419**	**198**	**161**	**15**	**115**	**2,002**
Credit loss expenses	6	13	162	32	(1)	-	21	233
Net Income (loss) Attributed to the bank's shareholders	**58**	**89**	**56**	**37**	**15**	**11**	**(45)**	**221**
Return on equity (percentage)	**11.3**	**54.2**	**5.3**	**7.5**	**17.9**	**46.2**	**(9.4)**	**7.9**
Average Assets	37,676	12,480	[4]49,347	[4]18,544	[4]3,992	928	[3][4]83,055	206,022
Average Liabilities	67,720	17,549	27,345	9,833	36,257	732	[3]34,908	194,344

Notes:

(1) Reclassified following a reclassification made by Mercantile Discount Bank designed to reflect a change in the expenditure model, the classification of large and institutional deposits from the private banking segment to the corporate banking segment and a change in the average balances of liabilities in respect of credit cards.

(2) Reclassified, see Note 1 D 2.

(3) Reclassification - sorting of the average balance of provision for contingencies from the item "Other assets" (where it had been offset against an asset of a similar nature) to the item "Other liabilities".

(4) Reclassified - Improving the allocation of certain items, which were classified to the " Financial management " segment.

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	Unaudited							
					Financial			
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
	For the nine months ended September 30, 2013							
Interest income, net								
- From external sources	829	554	1,013	545	(41)	2	277	3,179
- Intersegmental	90	3	(286)	(140)	281	-	52	-
Total Interest income, net	919	557	727	405	240	2	329	3,179
Non-interest financing income	11	2	47	12	14	89	341	516
Commissions and Other income	1,127	355	313	139	202	2	4	2,142
Total income	**2,057**	**914**	**1,087**	**556**	**456**	**93**	**674**	**5,837**
Credit loss expenses	68	55	220	127	(2)	-	(11)	457
Net Income (loss) Attributed to the bank's shareholders	**(50)**	**159**	**203**	**87**	**32**	**74**	**297**	**802**
Return on equity (percentage)	**(3.0)**	**23.1**	**6.6**	**6.7**	**10.1**	**85.2**	**17.0**	**9.0**
Average Assets	37,019	12,494	42,284	18,701	4,078	1,025	83,318	198,919
Average Liabilities	68,761	16,882	22,901	10,101	33,316	757	34,228	186,946
	For the nine months ended September 30, 2012(1)							
Interest income, net								
- From external sources	108	554	1,076	630	(89)	2	1,112	3,393
- Intersegmental	1,013	24	(278)	(178)	386	-	(967)	-
Total Interest income, net	1,121	578	798	452	297	2	145	3,393
Non-interest financing income	(2)14	(2)5	(2)40	13	4	56	161	293
Commissions and Other income	(2)1,132	(2)362	(2)339	139	169	2	(2)37	2,180
Total income	**2,267**	**945**	**1,177**	**604**	**470**	**60**	**343**	**5,866**
Credit loss expenses	37	54	272	92	(4)	-	23	474
Net Income (loss) Attributed to the bank's shareholders	**155**	**206**	**260**	**125**	**28**	**47**	**(2)(188)**	**633**
Return on equity (percentage)	**9.9**	**32.5**	**8.4**	**9.6**	**9.6**	**71.2**	**(14.4)**	**7.7**
Average Assets	37,444	12,352	(4)46,395	(4)19,604	(4)3,940	800	(3)(4)82,203	202,738
Average Liabilities	68,400	15,847	27,651	9,395	35,581	728	(3)33,736	191,338

Footnotes:

(1) Reclassified following a reclassification made by Mercantile Discount Bank designed to reflect a change in the expenditure model, the classification of large and institutional deposits from the private banking segment to the corporate banking segment and a change in the average balances of liabilities in respect of credit cards.

(2) Reclassified, see Note 1 D 2.

(3) Reclassification - sorting of the average balance of provision for contingencies from the item "Other assets" (where it had been offset against an asset of a similar nature) to the item "Other liabilities".

(4) Reclassified - Improving the allocation of certain items, which were reclassified to the " Financial management " segment.

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	audited							
	For the year ended December 31,2012[3]							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
Interest income, net								
- From external sources	238	751	1,453	775	(31)	2	1,271	4,459
- Intersegmental	1,204	26	(421)	(169)	414	-	(1,054)	-
Total Interest income, net	1,442	777	1,032	606	383	2	217	4,459
Non-interest financing income	26	6	50	15	11	61	183	352
Commissions and Other income	1,498	492	441	185	230	2	57	2,905
Total income	**2,966**	**1,275**	**1,523**	**806**	**624**	**65**	**457**	**7,716**
Credit loss expenses	19	98	467	127	10	-	5	726
Net Income (loss) Attributed to the bank's shareholders	**224**	**263**	**245**	**174**	**23**	**52**	**(179)**	**802**
Return on equity (percentage)	**10.7**	**29.5**	**5.9**	**10.2**	**6.1**	**54.6**	**(9.4)**	**7.1**
Average Assets	37,253	12,379	(2)46,820	(2)20,051	(2)3,995	824	(1)(2)81,880	203,202
Average Liabilities	68,692	16,085	27,371	9,458	35,473	729	(1)33,913	191,721

Footnotes:

(1) Reclassification - sorting of the average balance of provision for contingencies from the item "Other assets" (where it had been offset against an asset of a similar nature) to the item "Other liabilities".

(2) Reclassified - Improving the allocation of certain items, which were reclassified to the " Financial management " segment.

(3) Reclassified following a reclassification made by Mercantile Discount Bank designed to reflect a change in the expenditure model, the classification of large and institutional deposits from the private banking segment to the corporate banking segment and a change in the average balances of liabilities in respect of credit cards.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A. Changes in other comprehensive income (loss) attributed to the bank's shareholders[1]

	Adjustments, net, for presentation of available- for- sale securities at fair value	Financial statements translation adjustments, net after hedge effects[2]	Net income (loss) in respect of cash flows hedge	Total
	in NIS millions			
1. For the three months ended September 30 2013 and 2012 (unaudited)				
Balance at June 30, 2013	137	(180)	(6)	(49)
Net change during the period	32	(70)	(1)	(39)
Balance at September 30, 2013	**169**	**(250)**	**(7)**	**(88)**
Balance at June 30, 2012	120	73	(10)	183
Net change during the period	95	(9)	(1)	85
Balance at September 30, 2012	**215**	**64**	**(11)**	**268**
2. For the nine months ended September 30 2013 and 2012 (unaudited)				
Balance at December 31, 2012 (audited)	415	(81)	(10)	324
Net change during the period	(246)	(169)	3	(412)
Balance at September 30, 2013	**169**	**(250)**	**(7)**	**(88)**
Balance at December 31, 2011 (audited)	2	(4)	(8)	(10)
Net change during the period	213	68	(3)	278
Balance at September 30, 2012	**215**	**64**	**(11)**	**268**
3. For the year 2012 (audited)				
Balance at December 31, 2011	2	(4)	(8)	(10)
Net change during the year	413	(77)	(2)	334
Balance at December 31, 2012	**415**	**(81)**	**(10)**	**324**

Footnotes:

(1) There are no amounts attributed to the non-controlling interests holders.

(2) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

B. Changes in other comprehensive income (loss) attributed to the bank's shareholders[1]

	Unaudited					
	For the three months ended					
	September 30, 2013			September 30, 2012		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions					
Adjustments for presentation of available-for- sale securities at fair value						
Net income (loss) on adjustments to fair value not yet realized	122	(35)	87	275	(102)	173
Loss (income) on available for sale securities reclassified to the statement of income	(83)	28	(55)	(121)	43	(78)
Net change during the period	**39**	**(7)**	**32**	**154**	**(59)**	**95**
Translation adjustments						
Financial statements translation adjustments[2]	(69)	(1)	(70)	(7)	(2)	(9)
Hedge	(2)	2	-	(2)	2	-
Net change during the period	**(71)**	**1**	**(70)**	**(9)**	**-**	**(9)**
Cash flow hedging						
Net income (loss) in respect of cash flow hedging	(1)	-	(1)	(2)	1	(1)
Net loss (income) in respect of cash flow hedging reclassified to the statement of income	1	(1)	-	-	-	-
Net change during the period	**-**	**(1)**	**(1)**	**(2)**	**1**	**(1)**
Total net changes during the period	**(32)**	**(7)**	**(39)**	**143**	**(58)**	**85**

	Unaudited						Audited		
	For the nine months ended						For the year ended		
	September 30, 2013			September 30, 2012			December 31, 2012		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Adjustments for presentation of available-for- sale securities at fair value									
Net income (loss) on adjustments to fair value not yet realized	9	13	22	614	(233)	381	1,040	(391)	649
Loss (income) on available for sale securities reclassified to the statement of income	(413)	145	(268)	(270)	102	(168)	(367)	131	(236)
Net change during the period	**(404)**	**158**	**(246)**	**344**	**(131)**	**213**	**673**	**(260)**	**413**
Translation adjustments									
Financial statements translation adjustments[2]	(172)	3	(169)	72	(3)	69	(76)	-	(76)
Hedge	4	(4)	-	(4)	3	(1)	(1)	-	(1)
Net change during the period	**(168)**	**(1)**	**(169)**	**68**	**-**	**68**	**(77)**	**-**	**(77)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	2	(1)	1	(9)	4	(5)	(10)	4	(6)
Net (income) loss in respect of cash flow hedging reclassified to the statement of income	4	(2)	2	3	(1)	2	7	(3)	4
Net change during the period	**6**	**(3)**	**3**	**(6)**	**3**	**(3)**	**(3)**	**1**	**(2)**
Total net changes during the period	**(566)**	**154**	**(412)**	**406**	**(128)**	**278**	**593**	**(259)**	**334**

Footnotes:
(1) There are no amounts attributed to the non-controlling interests holders.
(2) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

14. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI")

A. An agreement with FIBI Holdings - 2010

The Bank and FIBI Holdings signed an agreement on March 28, 2010, which, among other things, limits the period in which Discount Bank shall have the right by which FIBI Holdings shall continue to support the appointment of one quarter of the directions of FIBI from among candidates recommended by Discount Bank. Details regarding the highlights of the agreement and regarding the approvals of the Supervisor of Banks and the Antitrust Commissioner with respect to the agreement, including the timetable determined by the Antitrust Commissioner for the reduction in the interest held by Discount Bank in FIBI, were brought in Note 6 E (1) to the financial statements as of December 31, 2012.

According to the principles, as from the date on which the right to appoint Directors, as stated, will expire, the Bank shall cease stating its investment in FIBI by the equity method of accounting, and the shares will be classified as "available-for-sale securities".

B. Data regarding the investment in FIBI

On September 30, 2013 the Bank's holdings in FIBI were 26.45% in the equity and in the voting rights.

The net asset value of the Bank's investment in FIBI as of September 30, 2013: NIS 1,678 million (after a provision for impairment of NIS 113 million, see below). The market value of the Bank's holdings in FIBI totaled on September 30, 2013: NIS 1,535 million. The market value of this investment at November 24, 2013: NIS 1,537 million.

C. An opinion in the matter of the provision for impairment in value. Note 6 E (3) to the financial statements as of December 31, 2012, described an opinion received by the Bank, rendered by Prof. Yoram Eden, CPA (Isr.), who gave his consent to the inclusion thereof in the financial statements (hereinafter: "The March 2013 Opinion"). In the March 2013 Opinion, Prof. Eden came to the general conclusion that the Bank does not need, in accordance with accepted accounting principles, to perform an additional provision for impairment regarding its investment in FIBI shares. The Bank examined the March 2013 opinion and decided to adopt it.

An opinion in the matter of the provision for impairment in value. Note 14 to the condensed financial statements as of March 31, 2013 and as of June 30, 2013, respectively, described an opinion received by the Bank, rendered by Prof. Yoram Eden, CPA (Isr.), who gave his consent to the inclusion thereof in the financial statements (hereinafter: "The Previous Opinions"). In the Previous Opinions, Prof. Eden came to the general conclusion that the Bank does not need, in accordance with accepted accounting principles, to perform an additional provision for impairment regarding its investment in FIBI shares. The Bank examined the previous opinions and decided to adopt them.

D. Update of the opinion. The Bank has received an update to the previous opinions from Prof. Eden, who gave his consent to the inclusion thereof in the financial statements (hereinafter: "the updated opinion"). In conjunction with the updated opinion, the issue of whether as a result of the issue of the financial statements of FIBI as of June 30, 2013, there is place for changes and/or updates in the assumptions and parameters serving as the basis for the opinion, and how, if at all, such changes affect the valuation amount of FIBI as included in the March 2013 opinion - was considered, inter alia.

Prof. Eden noted that the updated opinion should be read in conjunction with the previous opinion.

Updated valuation. Prof. Eden has reviewed the assumptions used by him in his previous opinion, and has updated the opinion, in as much as this was called for in view of data in the report for June 30, 2013, and in light of indications received from FIBI.

Restrictions in performing the valuation. FIBI did not provide Prof. Eden, in his capacity as valuer on behalf of the Bank, any assistance or information, except for information which is made public anyways and a number of clarifications passed to him. In addition, FIBI has related to Prof. Eden various indications that enabled him to examine a part of the basic assumptions of the valuation. In view of this, Prof. Eden has been requested to assess the value of FIBI based on public information, and based on the information he had received from FIBI, as stated.

Performing a valuation based on the reports of FIBI's. As stated in the previous opinions, for the purpose of performing the valuation, Prof. Eden relied mainly on public information, and in particular, on audited annual financial statements and reviewed interim financial statements published by FIBI. These resources are considered reliable, and nothing has come to his attention that might indicate unreasonableness of the data made use by him or that the financial items included in FIBI's financial statements had not been presented in accordance with generally accepted accounting principles, and that the value of the said financial items requires any reduction/adjustment. Prof. Eden did not perform independent examinations of the data, accordingly his work does not constitute a verification of correctness, completion and accuracy of such data.

14. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI") (CONTINUED)

Forward looking information. In his valuation, Prof. Eden stated that he also addressed the forward looking statement included in FIBI's Directors' Report. A forward looking statement includes uncertain information regarding the future, which is based upon information existing in FIBI's hands at date of the Report and includes evaluations and objectives of that bank as of that date. If such evaluations of management do not materialize, actual results may differ materially from the results expected or inferred from such data. Prof. Eden further noted that his valuation in itself contains forward looking statements, which reflect his evaluation concerning various parameters and based upon information available to him (public information). Prof. Eden noted that if such evaluations do not materialize, actual results may differ materially from the results estimated by him.

Conclusion. In conclusion of the opinion, Prof. Eden has reached the opinion that the recoverable amount of the Bank's investment in shares of FIBI is in the range of between 87.3% and 97.0% of the amount of the Bank's share in the equity of FIBI as at June 30, 2013. Whereas the equity value, according to which the investment is stated in the Bank's books, is lower than the recoverable amount of the investment, Prof. Eden is of the opinion that the Bank is not required to record a provision for impairment of its investment in shares of FIBI, in addition to the provision already recorded in its financial statements as of June 30, 2012, in the amount of NIS 113 million. The Bank examined the Opinion and decided to adopt it.

Personal interest. Prof. Eden stated in his opinion that he has no personal interest in the shares of Israel Discount Bank or in the shares of FIBI.

(The Bank granted Prof. Eden a letter of indemnification in respect in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found).

15. CREDIT CARD ACTIVITY

Amended cross clearing arrangement – reduction of the issuer commission rate. Note 33 B (1) to the financial statements as of December 31, 2012, described, among other things, an amended cross clearing arrangement. The agreement determined, among other things, that the reduction of the issuer commission, to 0.7%, shall be applied gradually, as detailed in the amended arrangement, as follows:

(1) Until June 30, 2012, the issuer commission will amount to an average rate not exceeding 0.875%;

(2) As from July 1, 2012, the issuer commission will be reduced for a period of six months, to an average rate not exceeding 0.8%. Also, the addition at the rate of 0.15% in respect of transactions where the magnetic strip on the credit card or on the clever card has not been read at the Point of Sale (P.O.S.), shall be cancelled;

(3) As from January 1, 2013, the issuer commission will be reduced for a period of six months, to an average rate not exceeding 0.75%;

(4) As from July 1, 2013, the issuer commission will be reduced for a period of one year, to an average rate not exceeding 0.735%;

(5) As from July 1, 2014 and until the termination of the arrangement period (December 31, 2018) the issuer commission will be reduced to an average rate not exceeding 0.7%.

The four first stages, as detailed above, have been implemented on the due dates.

The Antitrust Tribunal approved on March 7, 2012, the said compromise arrangement.

On April 29, 2012, Clalit Health Services filed an appeal with the Supreme Court against the decision of the Antitrust Tribunal. The appeal focuses on the "Clalit" arguments, with regard to its non-classification in the bottom category of trading houses.

It should be noted that the effect of the reduction in the cross commission results from various parameters, including: the scope of commissions collected from trading houses, the scope of royalties paid to banks with whom ICC is engaged in a joint issuance agreement, various operating commissions, the volume of clearing operations, including the opening to competition of the IsraCard credit card market, and more. It is difficult to evaluate each one of the said parameters in itself and to evaluate their combined effect and particularly in view of the fact that their effect is reflected gradually over a period of time. In view of the above, ICC believes that it is not possible to assess the scope of the effect of the reduction in the cross commission on its business results. However, ICC and the Bank are of the opinion that the business results of ICC will be materially adversary affected as a result of the said reduction in the cross commission.

A joint issuance agreement between ICC and owner banks. ICC signed on September 30, 2013 with the Bank on the one hand and with the First International Bank Group on the other hand, an agreement for the joint issue of VISA and MasterCard credit cards, determining also operating arrangement and the granting of services by ICC in respect of credit cards to be issued by it and distributed by the said banks to their customers. This agreement replaces earlier agreements between the said parties. According to the said agreements, a material increase occurred in the rate of royalties that are paid to the Bank and to FIBI. The changes in the terms of the joint issuance agreement with FIBI were implemented with effect

15. CREDIT CARD ACTIVITY (CONTINUED)

from the beginning of 2012, while the changes in the terms of the joint issuance agreement with the Bank were implemented with effect from the beginning of 2013. The issuance agreements will be valid for 5-year periods and are extendable under certain circumstances determined in the agreements.

The grant of an option to FIBI to purchase up to 10% of ICC's share capital. Within the framework of the joint issuance agreement described above, FIBI was granted an option to purchase from ICC, by way of a share issue, up to 121,978 ordinary shares in ICC, comprising at date of the agreement, 10% of the fully diluted ordinary share capital of ICC. The amount of shares allotted may be higher in the event that prior to the exercise of the option, ICC will issue shares at a price reflecting a value lower than market value, in accordance with the formula determined in the agreement.

The option is exercisable subject to the earlier realization by the First International Bank of most of its holdings in ICC, remaining with a holding rate of less than 10%. The option is exercisable in one lot no later than December 31, 2017, at any time after the average monthly amount of credit transactions made by FIBI customers reaches the minimum amount stated in the agreement. The number of ordinary shares to be allotted within the framework of the exercise of the option shall be computed according to a formula determined in the agreement, which is affected by the volume of operations made by use of credit cards of the First International Bank.

In consideration for the exercise of the option, FIBI will pay an exercise price in accordance with a formula determined in the agreement, which reflects present company value and certain additional adjustments determined in the agreement.

The option may be converted into a cash payment to FIBI, according to a formula determined in the agreement, net of the exercise price as stated. The amount to be paid for the redemption of the option shall not exceed an amount of NIS 36 million (this maximum amount is to be determined according to the rate of allotment out of the option shares at date of exercise).

The manner of exercising the option (whether in cash or by way of the issue of shares) is subject to approval of the Bank's Board of Directors.

Issue agreement with Mizrahi Tefahot Bank. Note 33 B 4 to the financial statements as of December 31, 2012, described an agreement for the joint issue with Mizrahi Tefahot Bank, within the framework of which Mizrahi Tefahot Bank was granted an option to acquire up to 10% of the share capital of ICC. The said option expired on November 18, 2013. ICC and Mizrahi Tefahot Bank are presently negotiating the terms of the future joint issue agreement.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY

On March 19, 2013, the team examining the increase of competition in the banking industry submitted its final report, the team, headed by the Supervisor of Banks, who was appointed in December 2011, by the Governor of the Bank of Israel and the Minister of Finance, following the recommendation of the Committee for Social-Economic Change ("Trachtenberg Committee").

The team has examined ways and means for increasing competition in the banking industry, focusing on services provided to households and small businesses. The final report includes recommendations regarding various issues, intended to increase competition in the banking industry, among which were increasing the number of market participants, improving the credit data area, increasing the power of the customer and simplification of the banking product.

The final report includes recommendations made in the interim report as well as reference to matters relating to the implementation of the recommendations, including:

1) Simplifying the closing of a bank account and the transfer to another bank, by means of improving and facilitating the process of transferring the authorizations to charge the account;
2) The establishment of an interoffice team headed by the Capital Market, Savings and Insurance department at the Ministry of Finance, for the formation of measures for the granting of retail credit from pension savings sources and the removal of regulatory barriers existing at the present time;
3) Recommendation for changing the definition of the small business population to which the retail tariff will apply.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

Since publication of the interim report, the team is acting towards the implementation of the recommendations, which involves amendment of instructions that are the authority of the Supervisor of Banks and the Governor of the Bank of Israel. Concurrently, the team is furthering the implementation of the recommendations, the implementation of which require amendments of principal legislation. Furthermore, the Supervisor of Banks is taking further action intended to improve competition and increase transparency in the management of current accounts.

Banking Rules (Customer service)(Commissions)(Amendment), 2012. The Amendment was published in the Official Gazette on December 27, 2012. The main items of the Amendment were detailed in note 34 to the annual financial statements as of December 31, 2012. The Amendment entered into effect on January 1, 2013. The Bank has made the necessary changes required by the Amendment.

Letter of the Supervisor of Banks regarding the re-pricing of commissions in respect of securities operations. Note 34 to the financial statements as of December 31, 2012, discussed various instructions issued by the Supervisor of Banks on November 28, 2012, regarding the re-pricing of commissions relating to securities transactions as well as the manner of granting discounts with respect to commissions on securities transactions. The Bank has made the necessary changes required in accordance with the instructions of the Supervisor of Banks, which entered into effect on March 1, 2013.

Banking Rules (Customer service) (Commissions) (Amendment No. 2), 2012. The Amendment was published in the Official Gazette on June 24, 2013. Its principal provisions are:

- A change in the definition of the term "small business" – increasing the maximum turnover of a small business from NIS 1 million to NIS 5 million;
- A determination according to which the commission that a banking corporation may charge for a service included in the full price-list, should not exceed the amount or rate of commission charged for such service to corporation which is not a small business.

The Amendment entered into effect on August 1, 2013. The Bank has made the necessary changes required by the Amendment.

Banking Law (Customer service) (Amendment No. 19) Bill, 2013. The Supervisor of Banks published this Bill on July 8, 2013.

The principal provisions of the Bill are:

- A change in the definition of the term "customer" – according to which a customer would be an individual which is not a business as well as a small business as determined by the Governor in the Rules (based on business turnover);
- Authorizing the Supervisor of Banks to publish data regarding interest rates applied by banks to deposits and credit.

Draft Amendment to the Banking Rules (Customer service) (Commissions), 2008. The Supervisor of Banks issued this draft Amendment on July 8, 2013. On October 8, 2013, the Supervisor of Banks issued an updated draft.

The principal provisions of the Amendment are:

- Change in the definition of the term "small business" – in accordance with the Amendment, also individual customers, being a business, are to be classified as a "small business" on condition that the banking corporation did not find out that their business turnover exceeds NIS 5 million. For this purpose, in the circumstances detailed in the amendment, the banking corporation may require such an individual to provide an annual report, as defined in the rules and if it's demand has not been answered, the banking corporation would be entitled to classify it as a business that is not a small business;
- Reduced minimum commission relating to a direct channel transaction and teller operation – it is determined that the price of the minimum commission will be an amount that does not exceed the price of one teller transaction (instead of two teller transactions);
- Commission channels:
    - Banking corporations will be required to offer customers (individuals/small businesses) two commission channels (uniform services assortments for the management of current accounts): the basic channel (includes one teller transaction and ten direct channel transactions) and an extended channel (includes up to ten teller transactions and up to fifty direct channel transactions);
    - In addition, a banking corporation may offer a third channel: an extended-plus channel (includes the services provided by the extended channel as well as additional services, as determined by the banking corporation);

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- On October 8, 2013, the Supervisor of Banks issued a letter in the matter of service routes, according to which, the amendment in its final version as will be published in the Official Gazette will enter into effect on April 1, 2014. According to that stated in the letter, a banking corporation has to provide to the Supervisor, until February 10, 2014, data regarding the price of each service route of the banking corporation, the manner of determining the pricing in each route together with the grounds thereto as well as the list of services included in "extended plus" route (to the extent that the banking corporation offers such route).

The Bank is studying the implications of the amendment and is preparing for its implementation.

Draft Amendment of Banking Rules (Customer service) (Proper disclosure and submission of documents), 1992. The Supervisor of Banks issued this draft Amendment on July 8, 2013.

The principal provisions of the Amendment are:

- A banking corporation has to publish also on its Internet website, various data that under these rules have to be published on a notice board in the bank's branches;
- The Supervisor of Banks is authorized to determine instructions regarding disclosure of the cost of securities services;
- A banking corporation has to provide to any individual who wishes to open a business account, an explanatory sheet regarding the possibility of him being classified as a "small business" with respect to the application of the commission price-list;
- A banking corporation has to provide information in writing to a customer who wishes to join any of the channels, with respect to commissions charged to him for services included in the chosen channel provided in the quarter prior to the date of application to join the channel. In addition, the banking corporation has to present to the customer who joined a channel, as part of the semi-annual statement of commissions, alongside the cost of the channel, also the amounts of commission that would have been charged to him, had he not joined the channel.

Draft Proper Conduct of Banking Business Directive in the matter of disclosure of service cost. The draft Directive was published by the Supervisor of Banks on July 8, 2013. An updated draft was published on October 16, 2013. The principal items of the directive are: the duty to present to a customer who was charged with Israeli and/or foreign securities commission, within the framework of the semi-annual statement of commissions, comparative data regarding commissions charged to customers who performed transactions similar to those of the customer; the duty to present on the Internet website of the Bank the said comparative data relating to the data for a period of six months; the duty to present to the customer, within the framework of the semiannual statement of commissions, detailed data relating to securities commission charged to him during a period of six months in the manner detailed in the directive. According to the draft, the directive will become effective on April 1, 2014.

Proper Conduct of Banking Business Directive in the matter of reduction or addition to interest rates. The Directive was published by the Supervisor of Banks on September 9, 2013. Its main topics are: maintaining the reduction or addition to the basic interest rate granted to the customer upon granting credit, loan, credit facilities or upon depositing funds with the bank, also in the case of a change in interest rates or upon renewal of the deposit. The Directive will become effective on January 1, 2014.

Draft Proper Conduct of Banking Business Directive in the matter of "Annual report to customers of banking corporations". The Supervisor of Banks published on October 31, 2013, a preliminary version of a draft proper conduct of banking business directive in the matter of "annual report to customers of banking corporations", comprising the implementation of the Zaken Committee recommendations in the matter of "bank identity card".

The draft directive is designed to regularize the annual reporting duty of the corporation to its customers that are considered "an individual" or "a small business" under the Banking Rules (Customer Service) (Commissions), 2008, as regards all assets and liabilities of the customer with the banking corporation, including his total income and expenses during the year regarding assets, liabilities and current operation in his account.

The annual report is intended to improve the ability of customers to follow their activity in the account and to increase their ability to compare various banking products and services. The report is also intended to provide customers with information regarding their credit rating as determined by the rating model of the banking corporation, thus enabling potential lenders to assess the financial position of the customer.

The draft does not mention the effective date of the directive.

The Supervisor of Banks stated that the draft directive requires indirect amendments and certain adjustments of the proper disclosure rules, which shall be made further on.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

It should be noted that the implementation of the various procedures a described above, will require the Bank to make wide range computerized preparations, training of staff and determination and absorption of work procedures, at a financial cost that cannot be assessed at this stage, and all this within what seems to be a relatively short period of time.

At this stage, prior to the completion of the required legislation and regulation amendment process, it is not possible to evaluate the impact of the various moves. The Bank estimates that the income of the Bank and of Mercantile Discount Bank will be adversely affected by an amount assessed at approx. NIS 100 million per year. It should be noted in this respect that difficulties arose in masking this assessment, among other things, due to the low level of activity at this time, including with respect to the securities field, which does not necessarily reflect the average multi-annual level of activity. Furthermore, uncertainty exists with respect to the manner of implementation of certain moves.

17. APPROVAL OF TRANSACTIONS

Renewal of officers' responsibility insurance. On April 25, 2013, the special meeting of shareholders of the Bank approved the purchase of a policy with respect to the responsibility of officers of the Bank and of companies in which the Bank holds, directly or indirectly, an interest of 50% or more in the equity or voting therein. The insurance policy applies with identical terms both to present Officers and to Officers that served prior to the insurance period, including two former Officers who had served as Directors in subsidiaries who are also controlling shareholders of the Bank. The details of the policy are as described in Note 19 C 8 (m) to the financial statements as of December 31, 2012.

For details regarding the approval of the indemnification for the officers of certain subsidiaries, see Note 7 B 8 above.

The annual meeting of the Bank's shareholders, held on September 9, 2013, resolved to amend the advance liability to indemnify Directors and other Officers of the Bank, by adding indemnification in respect of administrative enforcement proceedings, in accordance and subject to limitations under the law.

18. TAXATION

The Minister of Finance signed on May 27, 2013, a Value Added Tax Order (Rate of tax on transactions and the import of goods) (Amendment), 2013, according to which the VAT rate will be 18% as from June 2, 2013.

A Value Added Tax Order (Rate of Tax applying to Non-profit Organizations and Financial Institutions) (Amendment), 2013, was published on June 2, 2013. According to the Order the payroll tax is to be increased to 18%, and it will be applied to the payment of payroll in respect of June 2013 and thereafter. In addition profit tax will also be increased to 18%, applying to a proportionate part of the profit for 2013.

On July 30, 2013, the Knesset passed the Change in order of National Priorities Act (Legislation amendments to achieve budgetary goals for the years 2013 and 2014), 2013, within the framework of which the company tax has been increased to 26.5% as from January 1, 2014.

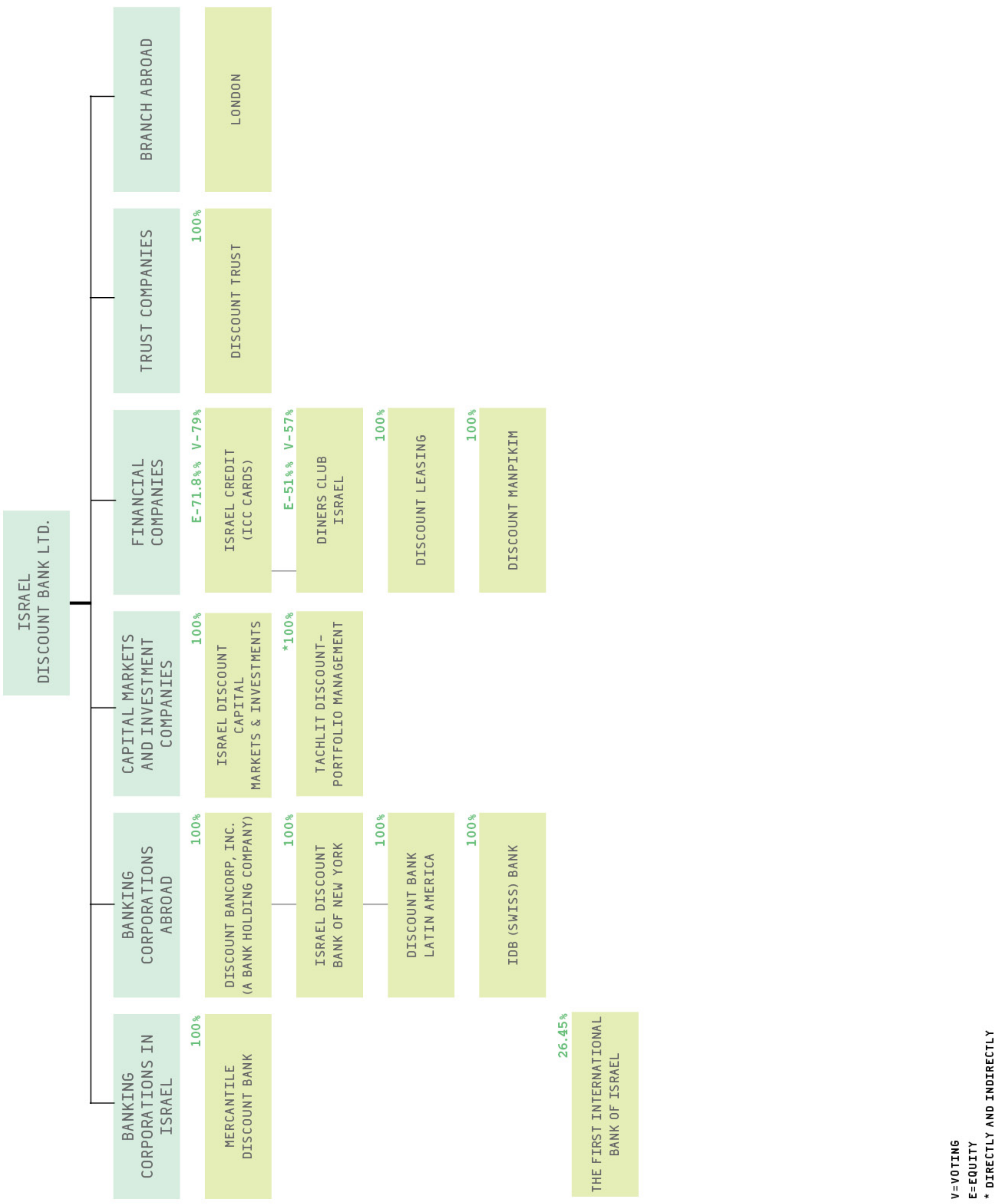
The legislation amendments are expected to increase the current tax payments of the Bank and of the Israeli subsidiaries, some immediately (payroll tax, profit tax and VAT on acquiring services and products) and some starting at the beginning of 2014 (corporate tax).

Following the aforesaid increase in tax rates, the statutory tax rate in 2013 is expected to rise from 35.89% to 36.22%. From the beginning of 2014, the statutory tax rate will rise to 37.71%.

Following the increase in payroll tax, the Bank recalculated its liabilities with respect to the payment of certain employee rights. The calculation update as aforesaid has increased the provisions of the Bank and Mercantile Discount Bank as of June 30, 2013, with respect to these liabilities, in the amount of NIS 13 million. Concurrently, in light of the increase in the statutory tax rate in 2013, the Bank and Mercantile Discount Bank have updated the tax rates according to which the provisions for deferred taxes are calculated. The said update of the provisions decreased the tax expenses as of June 30, 2013, in the amount of NIS 22 million.

The change in corporate tax increased the deferred tax receivable balance as of September 30, 2013, in an amount of approx. NIS 45 million, and the profit for the third quarter of the year by the same amount (computed on the basis of balances as of June 30, 2013).

Discount Group Structure



MAIN OFFICE

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.com

OVERSEAS BRANCH

London, United Kingdom: 65 Curzon Street

SUBSIDIARIES IN ISRAEL

BANKING
Mercantile Discount Bank

CAPITAL MARKETS
Israel Discount Capital Markets & Investments
Tachlit Discount - Portfolio Management

FINANCIAL
Israel Credit Cards
Diners Club
Discount Leasing
Discount Manpikim

TRUST SERVICES
Discount Trust

SUBSIDIARY BANKS ABROAD

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head Office: 511 Fifth Avenue, New York
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue, Suite 600
Grand Cayman, B.W.I. Branch:
P.O.Box 694GT, George Town

Representative Offices: Israel / Chile / Peru / Mexico / Uruguay

Discount Bank Latin America, Uruguay
Head Office: Rincon 390, Montevideo

Branches throughout Uruguay

IDB (Swiss) Bank Ltd., Switzerland
Head Office: 100 Rue du Rhone, Geneva

Representative Office: Israel