ANNUAL REPORT

2013

ISRAEL DISCOUNT BANK

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF THE SHAREHOLDERS

4 List of Board of Directors & Management Members

7 **The Discount Group - General Overview and Principal Data**

7 The Discount Group - General Overview and Structure of the Group

12 The Discount Group Strategic Plan

13 **Explanations Regarding the Business Condition of the Group**

13 Income and Profitability

15 Developments in Income and Expenses

22 Development of Assets and Liabilities

33 Capital Resources

40 Liquidity and the Raising of Resources in the Bank

42 Activity of the Group according to Segments of Operation

81 Further details as to activity in certain products

120 International operations

125 **Exposure to risks and risk management**

183 **Effects of external factors**

183 Main developments in Israel and around the world in 2013

190 Legislation and supervision

202 **Additional issues in the description of the Group**

202 Structure of the banking group

203 Main investee companies

209 Fixed assets and installations

214 Taxation

216 Human Resources

233 Control of the Bank

239 Critical accounting policies and critical accounting estimates

248 Rating the liabilities of the Bank and some of its subsidiaries

249 Legal proceedings

252 Material agreements

254 **Issues regarding corporate governance**

254 Corporate Governance code for the Discount Group

255 Corporate governance questionnaire

255 Group Management

256 The internal audit in the Group in 2013

259 Involvement with and contribution to the community

266 Auditor's remuneration

267 Remuneration of interested parties and senior officers and transactions with controlling shareholders

278 Controls and procedures

279 Miscellaneous

280 Board of Directors and Management

291 **Annex to the Report of the Board of Directors**

291 Part "A": Additional details - securities portfolio

298 Part "B": Table relating the disclosure requirements according to the third pillar to the data presented in the Report

299 Part "C": Additional details

MANAGEMENT REVIEW

307 Schedule "A" – Consolidated Balance Sheet – Multi-Period Data

309 Schedule "B" – Consolidated Statement of Income – Multi-period Data

310 Schedule "C" – Rates of Financial Income and Expenses – Consolidated

314 Schedule "D" – Exposure to Changes in Interest Rates – Consolidated

318 Schedule "E" – Credit risk classified by Economic Sectors on a Consolidated Basis

320 Schedule "F" – Exposure to foreign countries – Consolidated

324 Schedule "G" – Condensed Consolidated Balance Sheet – Multi-Quarter Data

326 Schedule "H" – Consolidated Statement of Income for each quarter – Multi-Quarter Data

328 President & CEO's certification

329 Chief Accountant's certification

330 Report of the Directors and Management on Internal Control over Financial Reporting

FINANCIAL STATEMENTS

332 Report of the Independent Auditors to the Shareholders of Israel Discount Bank Ltd. – in accordance with the public reporting directive of the Supervisor of Banks regarding Internal Control over Financial Reporting

334 Auditors' Report to the Shareholders of Israel Discount Bank Ltd. – Annual Financial Statements

335 Balance Sheet – Consolidated and the Bank

336 Statement of Income – Consolidated

337 Statement of Income – The Bank

338 Statement of Comprehensive Income

339 Statement of Changes in Shareholders' Equity

341 Statement of Cash Flows – Consolidated and the Bank

344 **Notes to the Financial Statements**

BOARD OF DIRECTORS

DR. YOSSI BACHAR
Chairman of the Board

ILAN BIRAN
(Outside Director)

ELI ELIEZER GONEN

ILAN COHEN

DAVID LEVINSON

EDITH LUSKY
(Outside Director)

JORGE ZAFRAN

ILAN (EILON) AISH

RICHARD MORRIS ROBERTS

ALIZA ROTHBARD

YALI SHEFFI

* Details regarding members of the Board of Directors and Managment are brought in the Report of tne Board of Directors.

MANAGEMENT

LILACH ASHER TOPILSKY
President & Chief Executive Officer

JOSEPH BERESSI
Senior Executive Vice President
Chief Accountant and Head of Accounting Group

YUVAL GAVISH
Senior Executive Vice President
Head of Banking Division

ESTHER DEUTSCH
Senior Executive Vice President
Chief Legal Adviser and Head of
Legal Advisory Group

YAIR AVIDAN
Executive Vice President
Chief Risk Officer and Head of
Risk Management Group

SHLOMO AVIDAN
Executive Vice President
Head of Operation and Logistic Division

ORIT ALSTER
Executive Vice President
Head of Corporate Banking Division

SHAI VARDI
Executive Vice President
Head of IT & Planning Division

AVRAHAM (AVI) LEVI
Executive Vice President
Head of Customer Assets Division

JOSEPH PERETS
Executive Vice President
Head of Human Resources Group

YIGAL RONAY
Executive Vice President
Head of Finance Division

NIR ABEL
Executive Vice President
Internal Auditor

RUTH MOSHKOVITZ
Corporate Secretary

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF THE SHAREHOLDERS

4 List of Board of Directors & Management Members

7 **The Discount Group - General Overview and Principal Data**

7 The Discount Group - General Overview and Structure of the Group

12 The Discount Group Strategic Plan

13 **Explanations Regarding the Business Condition of the Group**

13 Income and Profitability

15 Developments in Income and Expenses

22 Development of Assets and Liabilities

33 Capital Resources

40 Liquidity and the Raising of Resources in the Bank

42 Activity of the Group according to Segments of Operation

81 Further details as to activity in certain products

120 International operations

125 **Exposure to risks and risk management**

183 **Effects of external factors**

183 Main developments in Israel and around the world in 2013

190 Legislation and supervision

202 **Additional issues in the description of the Group**

202 Structure of the banking group

203 Main investee companies

209 Fixed assets and installations

214 Taxation

216 Human Resources

233 Control of the Bank

248 Critical accounting policies and critical accounting estimates

249 Rating the liabilities of the Bank and some of its subsidiaries

252 Legal proceedings

254 Material agreements

254 **Issues regarding corporate governance**

255 Corporate Governance code for the Discount Group

255 Corporate governance questionnaire

256 Group Management

257 The internal audit in the Group in 2013

260 Involvement with and contribution to the community

267 Auditor's remuneration

268 Remuneration of interested parties and senior officers and transactions with controlling shareholders

278 Controls and procedures

279 Miscellaneous

281 Board of Directors and Management

291 **Annex to the Report of the Board of Directors**

291 Part "A": Additional details - securities portfolio

298 Part "B": Table relating the disclosure requirements according to the third pillar to the data presented in the Report

299 Part "C": Additional details

THE DISCOUNT GROUP - GENERAL OVERVIEW AND PRINCIPAL DATA

The meeting of the Board of Directors, held on March 19, 2014, resolved to approve and publish the Bank's 2013 Annual Report.

THE DISCOUNT GROUP - GENERAL OVERVIEW AND STRUCTURE OF THE GROUP

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981 (hereinafter: "the Banking Law (Licensing)").
During the seventy nine years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres. The Discount Group is the third largest banking group in Israel.

DOMESTIC OPERATIONS

Discount Bank is a universal bank, offering its customers comprehensive banking services, in all areas of financial activity, through 145 branches in Israel, direct banking services, on-line banking and Internet services.
The Bank has one banking subsidiary in Israel - Mercantile Discount Bank Ltd. ("MDB") - a commercial bank serving customers in all fields of financial activity through 80 branches.
The activities in Israel also include:
- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use;
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd., ("Tafnit"; former "Tachlit Discount Asset Management Ltd.") which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting - the subsidiary "Israel Discount Capital Markets and Investments Ltd." ("DCMI") engages in investment banking, investments in private equity funds, in venture capital funds and in other non-financial investments. DCMI also engages in the field of securities distribution and underwriting and managing the issue of securities, by means of a subsidiary company.

For details regarding the Bank`s holdings in the First International Bank of Israel Ltd. (hereinafter : FIBI), which until March 13, 2014, was an affiliated company of the Bank, see Note 6 E (1) to the financial statements.

INTERNATIONAL ACTIVITY

The international activity of the Discount Group is mostly conducted by subsidiary companies in the United States and in Europe by the subsidiary in Switzerland and the Bank's London Branch. The international activity is characterized as business-commercial and private banking activity.

In the United States, IDB New York is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida, California and in the Cayman Islands. This bank has a banking subsidiary in Uruguay – Discount Bank (Latin America) ("DBLA") and representative offices in Latin America and in Israel. (For details regarding examination of the possibility for the sale of DBLA, see Note 8A to the financial statements).

In Switzerland, IDB (Swiss) Bank operates a branch in Geneva, as well as a representative office in Israel.

PRINCIPAL OPERATIONS AND CENTRAL EVENTS DURING THE REPORTED PERIOD

The Bank continued, as planned, in the reported period its preparations for the implementation of the Basel III instructions. The maintenance of capital adequacy and increasing the ratio of the core capital, in accordance with the instructions of the Supervisor of Banks and in accordance with targets set by the Board of Directors remained one of the central factors in the considerations and decisions of the Bank's Management. And indeed, the ratio of core capital to risk assets and the ratio of total capital to risk assets amounted on January 1, 2014, in Basel III terms to 8.9% and 14.2%, respectively (see "Components of Capital" hereunder).

Within the framework of the examination of various alternatives for enlargement of the capital base, the Bank examined in 2013 possibilities for the sale of holdings in Bancorp (see chart below), in whole or in part. In January 2014 the Bank had decided not to accept any of the proposals regarding Bancorp.

During the reported period, focus points of the strategic plan for the years 2014-2018 has been established and the plan would be submitted for approval of the Board of Directors until the end of August 2014 (see below).

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).

Ms. Lilach Asher Topilsky started her office as the Bank's President & CEO on February 19, 2014, and replaced Mr. Reuven Spiegel, whose tenure of office terminated on that date (see "Board of Directors and Management" below).

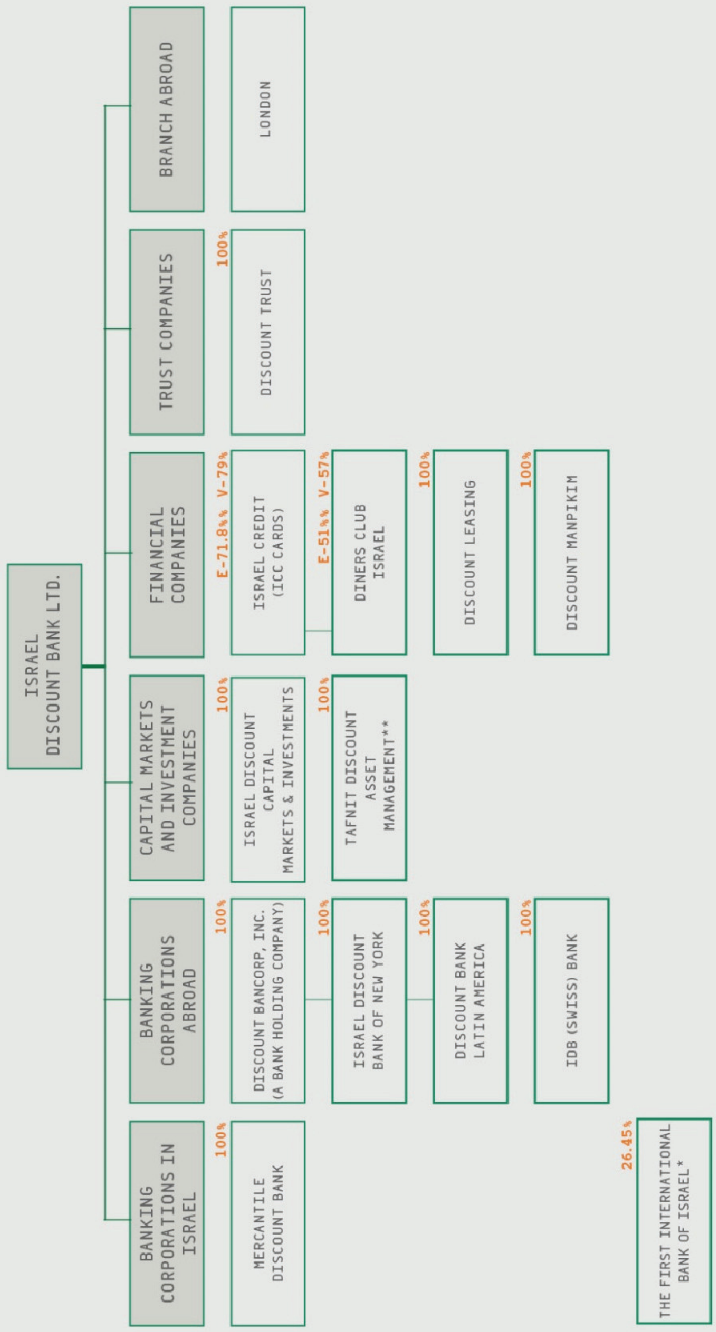
At the beginning of December 2013, the Bank turned into a banking corporation having no core controlling interest, following the sale of a part of their holdings in the Bank by the controlling shareholders until that date, the Bronfman-Schron Group (see under "Control of the Bank").

MARKET SHARE AND ADITIONAL DETAILS

Based on data relating to the banking industry as of September 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:

	September 30, 2013	December 31, 2012
	In %	
Total assets	16.4	16.5
Credit to the public, Net	14.4	14.6
Deposits from the public	16.5	16.4
Interest income, net	16.7	17.5
Total non-interest income	20.0	19.6

Discount Group Structure



* On March 13, 2014 FIBI ceased to be an affiliated company at the Bank - see note 6E (1) to the financial statements.

** Directly and Indirectly

DISCOUNT GROUP SEGMENT OF OPERATIONS - CONDENSED DESCRIPTION

The Bank reports its operations, in accordance with instructions of the Supervisor of Banks, under six operating segments, as follows:

- **Retail Banking - Household Segment:** within the framework of this segment are customers of the Bank's Banking Division (formerly: the Retail Banking Division) who are private customers, who are defined as customers who are either salaried employees, possess the potential for growth, or may be viewed as VIP customers (the definition excludes customers of the private banking centers). The segment also includes the customers of MDB in that bank's household segment - private customers of MDB, whose activities are typical of those of households, including credit of a volume not exceeding NIS 300 thousand and deposits of a volume not exceeding NIS 500 thousand.
- **Retail Banking - Small Business Segment:** within the framework of this segment customers of the Bank's Banking Division and customers of MDB which are defined as small companies and small businesses with annual turnovers up to NIS 15 million with borrowings of up to NIS 5 million are included.
- **Corporate banking:** within the framework of this segment customers of the Bank's corporate division are included, primarily companies with annual turnovers of over NIS 150 million or indebtedness exceeding NIS 50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's corporate banking segment.
- **Middle Market banking:** within the framework of this segment customers of the middle market department at the Bank's banking division are included, mainly companies with annual turnovers of NIS 15 to 150 million and indebtedness of NIS 5-50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's commercial banking segment.
- **Private banking:** This segment includes, as part of the Bank's domestic operations, customers of the Bank's Banking Division (individuals and corporations) who receive banking services at the private banking centers. These customers are generally Israeli customers with financial wealth held with the Bank of NIS 4 million and over, as well as foreign resident customers with financial wealth held at the Bank of US$1 million and above. The segment also includes customers of MDB and the London branch, of medium and high wealth, all the activity of IDB (Swiss) Bank and the private banking customer activity at IDB New York including all the operations of the subsidiary Discount Bank Latin America.
- **Financial Management Segment:** within the framework of this segment are included activities that are characterized as banking operations, but do not involve customers of the Group (except for activity with the dealing room, which is part of the segment). These activities are mainly comprised of their own account operations of the Bank, MDB and IDB New York involving securities and other banks, as well as management of market and liquidity risks and dealing room operations, including those involving derivatives. This segment also includes the Bank's share in the income of FIBI (until March 31, 2014) and its share in the income of its affiliated companies which operate in a supporting capacity. The segment also includes the non-financial corporations' sub-segment, which includes the Discount Group activity in non-financial investments.

These segments include also the related part of the operations of the product segments, and Discount Group's international operations.

The Bank reports its activity in four product segments, as follows:

- **Credit Card operations:** The Bank's activity in the credit card field is being conducted both through ICC, a credit card company in which the Bank holds 71.8% in share capital and 79% in voting rights and by the issue as co-issuers of ICC credit cards to the Bank's and to MDB's customers, as part of the services and products basket offered by the Bank and by MDB.
  The Bank's income from the credit card operations includes, primarily, various commissions related to the credit card activity of ICC (both as an issuer of credit cards and as a clearing agent for credit cards), as well as the financing income from credit granted to transactions effected through off-banking credit cards. In addition, the Bank and MDB derive income from payments transferred to them in respect of credit cards issued to their customers by ICC, at the Bank's and DMB's initiative.
- **Operations in the Capital Market:** The operations in the capital market includes securities activity (excluding nostro),

portfolio management and pension products. The activity includes the Bank's operations in the securities field, pension layouts as well as the operations of a specialized subsidiary - Tafnit Discount Asset Management and the operations in the capital market of MDB.

- **Construction and Real Estate Activity:** This activity includes customers of the Bank's various divisions whose sectorial classification is construction and real estate. This activity also includes customers of the construction and real estate sector of MDB, IDB New York and the London Branch.
- **Mortgage Activity:** This activity includes the mortgage operations of the Discount Group in Israel. This segment includes the granting of loans for housing purposes (purchase, construction etc.) and the granting of loans for any purpose secured by a mortgage on a residential unit or other property.

For further details, see "Activities of the Group according to principal segments of operations", "Further details regarding activities in certain products" and "International activity" below.

MAIN FIGURES FROM THE CONSOLIDATED FINANCIAL STATEMENTS

PROFITABILITY

	For the year ended December 31			Rate of change in %	
	2013	2012	2011	2013 Compared to 2012	2012 Compared to 2011
	In NIS millions				
Interest income, net	4,250	4,459	4,617	(4.7)	(3.4)
Credit loss expenses	580	726	778	(20.1)	(6.7)
Income before taxes	1,171	1,164	931	0.6	25.0
Provision for taxes on income	305	407	114	(25.1)	257.0
Income after taxes	866	757	817	14.4	(7.3)
Net income attributed to the Bank's shareholders	874	802	847	9.0	(5.3)
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in FIBI's shares	1,032	875	847	17.9	3.3
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.83	0.76	0.80		
The ratio of income before taxes to total equity in %	11.1	11.7	10.2		
The ratio of income after taxes to total equity in %	8.2	7.6	8.9		
Return on equity attributed to the Bank's shareholders, in %	7.3	7.1	8.2		
Return on equity attributed to the Bank's shareholders, in % - disregarding the provision for impairment in value of the investment in FIBI's shares	8.6	7.8	8.2		

BALANCE SHEET

	As at December 31		
	2013	2012	Change in %
	In NIS millions		2012
Total assets	200,507	201,012	(0.3)
Credit to the public, net	115,859	117,611	(1.5)
Securities	41,325	46,001	(10.2)
Deposits from the public	148,928	151,935	(2.0)
Equity attributed to the Bank's shareholders	12,233	11,838	3.3
Total equity	12,538	12,134	3.3

FINANCIAL RATIOS

	As at December 31	
	2013	2012
	in %	
Ratio of total equity to total assets	6.3	6.0
Ratio of capital to risk assets	14.4	14.3
The core capital ratio	9.3	8.6
Ratio of credit loss expenses to the average balance of credit to the public	0.49	0.61
Ratio of credit to the public, net to total assets	57.8	58.5
Ratio of credit to the public, net to deposits from the public	77.8	77.4
Ratio of deposits from the public to total assets	74.3	75.6
Ratio of total non-interest income to operating expenses	58.5	55.9
Ratio of operating expenses to total income	77.5	75.5
Risk assets adjusted return[(1)]	8.2	7.8

Footnote:
(1) Return on core capital computed on the average balance of risk assets (December 31, 2013 - 8.0%, December 31, 2012 - 7.5%).

DEVELOPMENTS IN THE MARKET PRICE OF THE DISCOUNT SHARES

	Closing price at end of the trading day			Rate of change in 2013 in %
	December 31, 2012	December 31, 2013	March 13, 2014	
Discount share	614	663	652	7.9
The Banks index	1,137.62	1,323.36	1,287.69	16.3
The TA 25 index	1,185.60	1,329.39	1,369.40	12.1
Discount market value (in NIS billions)	6.47	6.98	6.87	7.9

THE DISCOUNT GROUP STRATEGIC PLAN

During the reported period, focus points of the strategic plan for the years 2014-2018 has been established. The relevant business focuses have been integrated into the Bank`s work plan for 2014. In view of the change in the Bank`s President & CEO of the Bank, it has been decided to allow the incoming President & CEO time to examine the plan and propose to the Board the updating of its contents, where required. Accordingly a review of the plan is being conducted at the moment, and concurrently work is being conducted on the formation of an efficiency plan, which will be implemented as a central layer of the strategic plan.

The central business focus in the plan relates to the retail segment, among other things, by differentiation and the creation of value to customers within the framework of the "Discount Family" plan.

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, global and local capital market changes, 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 the 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 hands of the Bank, 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 point of view of the Bank and its subsidiaries 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

The Discount Group's net income in 2013 amounted to NIS 874 million, compared with NIS 802 million in 2012, an increase of 9.0%. With the elimination of the provision for impairment of the Bank's investment in shares of FIBI (see Note 6 E (3) to the financial statements), the income for 2013 would have amounted to NIS 1,032 million compared to NIS 875 million in 2012 and the increase would have reached a rate of 17.9% compared to 2012.

Return on equity, net, attributed to the Bank's shareholders for 2013 was 7.3%, compared with 7.1% in 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 2013 would have reached a rate of 8.6% compared to 7.8% in 2012.

Net earnings per one share of NIS 0.1 par value amounted in 2013 to NIS 0.83, compared with NIS 0.76 in 2012.

The main factors that had an effect on the business results of the Group in 2013, compared with 2012:

(a) A decrease in interest income, net of NIS 209 million (4.7%).

(b) A decrease in credit loss expenses, an amount of NIS 146 million (20.1%).

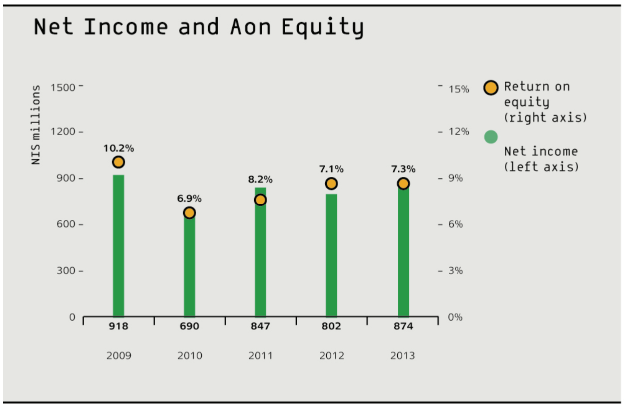
(c) An increase in the total non-interest income of NIS 262 million (8.0%), affected mostly by an increase of NIS 280 million in non-interest financing income (79.5%), from an increase of NIS 19 million in commissions (0.7%) and by a decrease in an amount of NIS 37 million in other income, which was mainly affected by the decline in capital gains from the sale of buildings and from a decline in profits of the severance pay fund.

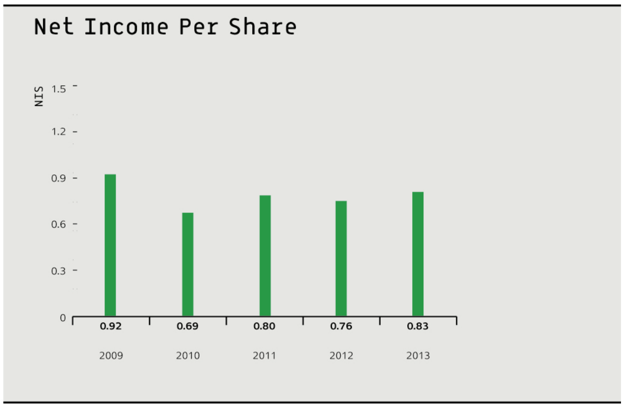
(d) An increase of NIS 192 million in operating and other expenses (3.3%), affected, mainly, by an increase in payroll and related expenses of NIS 175 million (5.1%).

(e) Tax provision of NIS 305 million on earnings in 2013, compared with NIS 407 million in 2012. The reduction in the tax expense in 2013 derives, mainly, from the increase in deferred tax assets, due to the increase in tax rates (see Note 29 B to the financial statements).

(f) A decrease of NIS 59 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 2013 is after the provision for impairment in value of the Bank's investment in shares of FIBI, in a net amount of NIS 158 million compared with NIS 73 million in 2012.

For details regarding this provision and changes in the provision for tax in respect of the Bank's share in earnings of FIBI, see Note 6 C and E to the financial statements.





Net income attributed to the Bank's shareholders in the fourth quarter of 2013 amounted to NIS 72 million, compared with NIS 276 million in the third quarter of the year, a decrease of 73.9%, and compared with NIS 169 million in the fourth quarter of 2012, a decrease of 57.4%. With the elimination of the provision for impairment of the Bank's investment in shares of FIBI (see Note 6 E (3) to the financial statements), the income in the fourth quarter of 2013 would have amounted to NIS 230 million compared to NIS 276 million in the third quarter of the year, and the decrease would have reached a rate of 16.7%.

The major factors affecting the business results of the Group in the fourth quarter of 2013, compared with the previous quarter, were:

A. A decrease in interest income, net, in an amount of NIS 23 million (2.1%).

B. A decrease in credit loss expenses, in an amount of NIS 48 million (28.1%).

C. An increase in the non-interest income, in an amount of NIS 22 million (2.6%).

D. An increase in operating and other expenses, in an amount of NIS 72 million (4.8%).

E. Provision for taxes on income in an amount of NIS 51 million in the fourth quarter of 2013, compared with NIS 47 million in the previous quarter.

F. A decrease in the Bank's share in earnings of affiliated companies, net of taxes, of NIS 177 million. The income in the fourth quarter of 2013 is after the provision for impairment in value of the Bank's investment in shares of FIBI, in a net amount of NIS 121 million. For details regarding this provision and changes in the provision for tax in respect of the Bank's share in earnings of FIBI, see Note 6 C and E to the financial statements.

DEVELOPMENTS IN INCOME AND EXPENSES

Following are the developments in certain income statement items in 2013, compared with 2012:

	for the year ended December 31		
	2013	2012	Rate of change in %
	In NIS millions		
Interest income	6,822	[1]7,847	(13.1)
Interest expenses	2,572	[1]3,388	(24.1)
Interest income, net	4,250	4,459	(4.7)
Credit loss expenses	580	726	(20.1)
Net interest income after credit loss expenses	**3,670**	**3,733**	**(1.7)**
Non-interest Income			
Non-interest financing income	632	352	79.5
Commissions	2,704	2,685	0.7
Other income	183	220	(16.8)
Total non-interest income	**3,519**	**3,257**	**8.0**
Operating and other Expenses			
Salaries and related expenses	3,619	3,444	5.1
Maintenance and depreciation of buildings and equipment	1,247	[1]1,248	(0.1)
Amortization of intangible assets	-	10	-
Other expenses	1,152	[1]1,124	2.5
Total operating and other expenses	**6,018**	**5,826**	**3.3**
Income before taxes	1,171	1,164	0.6
Provision for taxes on income	305	407	(25.1)
Income after taxes	866	757	14.4
Bank's share in income of affiliated companies, net of tax effect[2]	45	104	(56.7)
Net income attributed to the non-controlling rights holders in consolidated companies	(37)	(59)	(37.3)
Net income attributed to Bank's shareholders	**874**	**802**	**9.0**
Return on equity attributed to the Bank's shareholders, in %	7.3	7.1	
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in FIBI's shares[2]	**1,032**	**875**	**17.9**
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[2]	8.6	7.8	

Footnotes:

(1) Reclassified, see Note 1 C 5.2 to the financial statements.

(2) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

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

	2013		2012	Rate of change Q4 2013	
	Q4	Q3	Q4	compared to Q3 2013	compared to Q4 2012
	In NIS millions			in %	
Interest income	1,531	1,865	(1)1,637	(17.9)	(6.5)
Interest expenses	460	771	(1)571	(40.3)	(19.4)
Interest income, net	1,071	1,094	1,066	(2.1)	0.5
Credit loss expenses	123	171	252	(28.1)	(51.2)
Net interest income after credit loss expenses	**948**	**923**	**814**	**2.7**	**16.5**
Non-interest Income					
Non-interest financing income	116	90	59	28.9	96.6
Commissions	684	684	660	-	3.6
Other income	61	65	65	(6.2)	(6.2)
Total non-interest income	**861**	**839**	**784**	**2.6**	**9.8**
Operating and other Expenses					
Salaries and related expenses	921	889	785	3.6	17.3
Maintenance and depreciation of buildings and equipment	316	321	(1)320	(1.6)	(1.3)
Amortization of intangible assets	-	-	2	-	-
Other expenses	320	275	(1)272	16.4	17.6
Total operating and other expenses	**1,557**	**1,485**	**1,379**	**4.8**	**12.9**
Income before taxes	252	277	219	(9.0)	15.1
Provision for taxes on income	51	47	107	8.5	(52.3)
Income after taxes	201	230	112	(12.6)	79.5
Bank’s share in income (loss) of affiliated companies, net of tax effect	(2)(121)	56	71	-	-
Net income attributed to the non-controlling rights holders in consolidated companies	(8)	(10)	(14)	(20.0)	(42.9)
Net income attributed to Bank's shareholders	**72**	**276**	**169**	**(73.9)**	**(57.4)**
Net return on equity attributed to the Bank's shareholders, in %(3)	2.4	9.5	5.9		
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in the FIBI	**(2)230**	**276**	**169**	**(16.7)**	**36.1**
Net return on equity attributed to the Bank's shareholders, in % - disregarding the provision for impairment in value of the investment in the FIBI(3)	(2)7.7	9.5	5.9		

Footnotes:
(1) Reclassified, see Note 1 C 5.2 to the financial statements.
(2) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).
(3) On an annual basis.

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

Interest income, net. In 2013, interest income, net, amounted to NIS 4,250 million compared with NIS 4,459 million in 2012, a decrease of 4.7%. The decline in the interest income, net, in the amount of NIS 209 million, is explained by a negative price impact of approx. NIS 197 million, and from a negative quantitative effect in the amount of approx. NIS 12 million (see Schedule "C" 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 2.15% in 2013, compared with 2.19% in 2012.

The average balance of interest bearing assets has declined by a rate of approx. 2.8%, from an amount of NIS 183,291 million to NIS 178,129 million, and the average balance of interest bearing liabilities has declined by a rate of approx. 5.5%, from an amount of NIS 161,818 million to NIS 152,950 million.

Net interest income according to linkage segments

Following are details regarding the distribution of volume of operations according to interest bearing assets, net interest income and interest margin by linkage segments:

	2013			2012		
	Volume of activity* in %	Interest income, net in NIS millions	Interest margin in %	Volume of activity* in %	Interest income, net in NIS millions	Interest margin in %
Unlinked shekels	55.5	2,972	2.79	53.4	3,083	2.89
CPI-linked shekels	13.9	253	0.01	14.1	225	(0.11)
Foreign Currency	30.6	1,025	1.81	32.5	1,151	1.85
Interest income, net and the interest margin	**100.0**	**4,250**	**2.15**	**100.0**	**4,459**	**2.19**

* According to the average balance of the interest bearing assets.

In the non-linked shekel segment, net interest income amounted to NIS 2,972 million in 2013, compared with NIS 3,083 million in 2012, a decrease of 3.6%. Income from this segment constituted 69.9% of total net interest income in 2013, compared with 69.2% in 2012.

The average balance of assets in this segment increased in 2013 by 1.1% compared with 2012, and the volume of assets comprised on an average 55.5% out of the total interest bearing assets in 2013, as compared with 53.4% in 2012.

The interest margin of the segment decreased from a rate of 2.89% in 2012 to a rate of 2.79% in 2013.

The reduction in profits of the segment resulted from the decrease in the interest margin, mostly due to the full effect of the decline in interest rates in the economy on the return on assets compared to a partial effect on the cost of deposits from the public, which was offset by the effect of the increase in the volume of operations.

The CPI-linked Shekel segment recorded in 2013 net interest income of NIS 253 million, compared with NIS 225 million in 2012, an increase of 12.4% and its proportion of total net interest income in 2013 was 6.0%, compared with 5.0% in 2012.

The average asset balance in this segment in 2013 declined by a rate of 4.1% compared with 2012, and the volume of assets comprised on an average 13.9% out of the total interest bearing assets in 2013, as compared with 14.1% in 2012.

The interest margin in the segment increased from a negative rate of 0.11% in 2012, to a positive rate of 0.01% in 2013.

The increase in profits of the segment derived from an increase in the interest margin on the return on assets, principally credit to the public, compared to the cost of resources, which was offset by the effect of the decline in the volume of operations.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income amounted to NIS 1,025 million in 2013, compared with NIS 1,151 million in 2012, a decrease of 10.9%. Its proportion of all net income was 24.1% in 2013, compared with 25.8% in 2012.

In 2013 the average balance of assets in this segment decreased at a rate of 8.6% compared to 2012, and the volume of assets comprised on an average 30.6% out of the total interest bearing assets in 2013, as compared with 32.5% last year.

The interest margin of the segment decreased from a rate of 1.85% in 2012 to a rate of 1.81% in 2013.

The decline in profits of the segment resulted from a decline in the interest margin on the return on assets, principally bonds, compared to the cost of resources, and from a decline in the volume of operations.

Non-interest financing income. In 2013, non-interest financing income amounted to NIS 632 million, compared to NIS 352 million in 2012, an increase of 79.5%.

Following are details regarding non-interest financing income:

	for the year ended December 31		
	2013	2012	Change
	in NIS millions		
From operations in derivative instruments	(577)	(333)	(244)
From investments in bonds	400	341	59
Net exchange rate differences	642	265	377
From investments in shares	137	80	57
From sale of loans	30	(1)	31
Total non-interest financing income	**632**	**352**	**280**

The increase in expenses from activity in derivative instruments stems mostly from negative exchange rate differences amounting to NIS 397 million, which were offset by an increase of NIS 120 million in adjustments to fair value of derivative financial instruments.

The growth in income from investments in bonds derived, mostly, from the rise in gains on sale of available-for-sale bonds.

The increase in net exchange rate differences derives, mostly, from positive exchange rate differences on balance sheet assets and liabilities, against which the Bank entered into transactions in derivative instruments, the exchange rate differences in respect thereof increased, as stated, the expenses on derivative instrument operations.

The increase in income from investment in shares derived, mostly, from the increase in gains on the sale of investments in mutual funds.

Rates of income and expenses. Interest income, net, is presented in Schedule "C" 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 adjustments to fair value exchange differences and operation in options), as detailed in the following Table.

Rates of interest income and expenses:

	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	178,129	6,822	3.83	183,291	7,847	4.28
ALM derivatives	160,333	2,720		156,520	2,871	
Total	**338,462**	**9,542**		**339,811**	**10,718**	
After elimination of adjustments to fair value of ALM derivatives		(293)			359	
Total	**338,462**	**9,249**	**2.73**	**339,811**	**11,077**	**3.26**
Total interest bearing liabilities	(152,950)	(2,572)	(1.68)	(161,818)	(3,388)	(2.09)
ALM derivatives	(161,176)	(2,751)		(157,872)	(3,026)	
Total	**(314,126)**	**(5,323)**		**(319,690)**	**(6,414)**	
After elimination of adjustments to fair value of ALM derivatives		98			(434)	
Total	**(314,126)**	**(5,225)**	**(1.66)**	**(319,690)**	**(6,848)**	**(2.14)**
Interest income, net, from current operations and the interest margin		4,024	1.07		4,229	1.12

Interest income from current operations, including ALM derivatives, amounted in 2013 to NIS 4,024 million, as compared with NIS 4,229 million in 2012, a decline at the rate of 4.8%.

Interest margin from current operations, including ALM derivatives reached in 2013 a rate of 1.07%, compared to 1.12% in 2012.

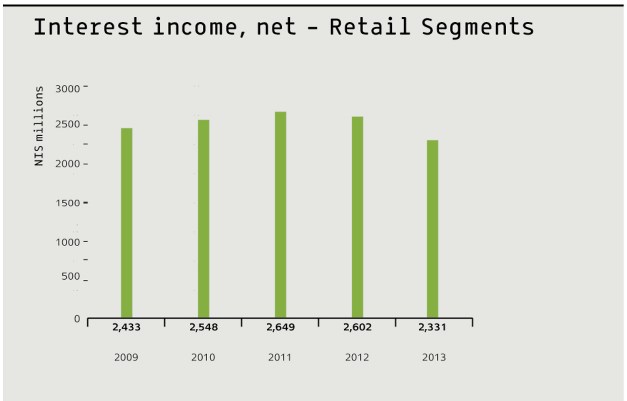
Following are details of the development of interest income, net, by segments of operations:

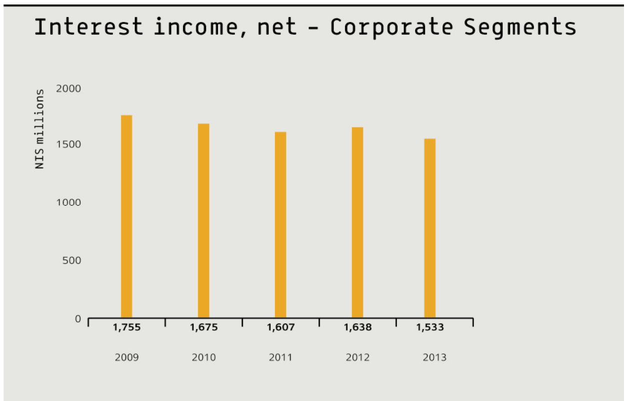
	For the year ended December 31		
	2013	2012[1]	
	In NIS millions		Change in %
Retail - household segment	1,268	1,442	(12.1)
Retail- small business segment	743	777	(4.4)
Corporate banking segment	983	1,032	(4.7)
Middle market banking segment	550	[1]606	(9.2)
Private banking segment	320	[1]383	(16.4)
Financial management segment	386	219	76.3
Total	**4,250**	**4,459**	**(4.7)**

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

Interest income of the business segments, excluding the financial segment, declined despite the increase in the average balance of deposits (6.6%) and in the average balance of credit (1.2%). The said decline is the result of a decline in the spread in respect of credit (a decrease of 0.03%) and in respect of deposits (a decrease of 0.07%), stemming from a decline of 0.5% in the Bank of Israel interest rate.

Income in the financial segment increased, mostly in non-interest income both in Israel and abroad, including an increase of NIS 116 million in gains from the sale of securities and adjustments to fair value in Israel, and additional NIS 51 million in operations abroad. The remainder of the increase stems mostly from income arising from exchange rate differences. This income was offset by the decline in interest income, mostly as a result of the decline in the return on bond portfolios.





Credit loss expenses amounted to NIS 580 million in 2013, compared with NIS 726 million in the preceding year, a decrease of 20.1%. In 2013, the credit loss expenses constituted 13.6% of the interest income, net, compared with 16.3% in the previous year. Most of the decline derives from a decrease of NIS 180 million in the specific allowance, being the result of the continued improvement process in the Bank`s credit portfolio and the repayment of a material problematic credit in the last quarter of 2013. On the other hand, the allowance for housing loans increased, mainly as a result of the implementation of the guidelines of the Supervisor of Banks in this matter (see Note 1 D 4.3). The expense in respect of credit losses in 2013, include an increase in the group allowance, being mainly the result of the increase in the Bank`s allowance coefficients, which was partly offset by a decrease stemming from a decline in the credit balances.

For details as to the components of the credit loss expenses, see Note 4 to the financial statements.

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

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis	170	102	77	101	230	208	94	95
On a group basis	(47)	69	64	44	22	25	24	28
Total	123	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	0.41%	0.58%	0.48%	0.49%	0.84%	0.78%	0.40%	0.42%
Cumulative rate since the beginning of the year	0.49%	0.51%	0.48%	0.49%	0.61%	0.53%	0.41%	0.42%

Footnotes:
(1) On an annual basis.
(2) Reclassified due to improvement in the allowance lanes data.

Commissions amounted to NIS 2,704 million in 2013, compared with NIS 2,685 million in the preceding year, an increase of 0.7%. The commissions were affected, primarily, from an increase in commissions on exchange differences, operations in securities and in certain derivative instruments and commissions on the distribution of financial products, which was partly offset by a decline in commissions on handling of credit and in ledger fees.
For details regarding changes in the field of commissions, see Note 35 to the financial statements.

Following is the distribution of commissions:

	for the year ended December 31		
	2013	2012	Change
	in NIS millions		in %
Ledger fees	591	605	(2.3)
Credit cards	917	924	(0.8)
Operations in securities and in certain derivative instruments	305	288	5.9
Commissions from the distribution of financial products	116	100	16.0
Management, operational and trusteeship services for institutional bodies	17	21	(19.0)
Handling credit	288	311	(7.4)
Conversion differences	129	108	19.4
Foreign trade services	53	55	(3.6)
Net income from credit portfolio services	17	18	(5.6)
Commissions on financing activities	180	174	3.4
Other commissions	91	81	12.3
Total commissions	**2,704**	**2,685**	**0.7**

Salaries and related expenses amounted to NIS 3,619 million in 2013, compared with NIS 3,444 million in the preceding year, an increase of 5.1% (for details as to the components of this item, see Note 27 to the financial statements).

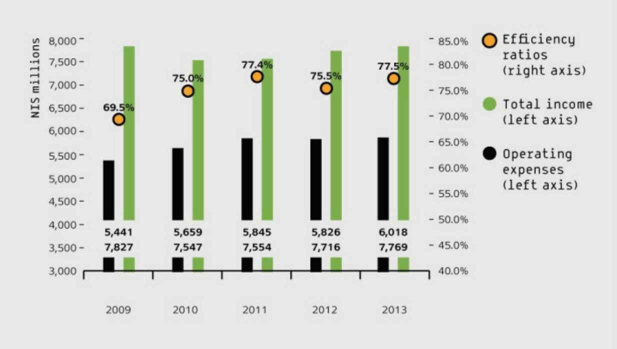
Following are details of the effects of certain components on salaries and related expenses:

	For the year ended December 31			Change in %	
	2013	2012	2011	2013 compared to 2012	2012 compared to 2011
	In NIS millions				
Salaries and Related Expenses - as reported	3,619	3,444	3,466	5.1	(0.6)
Awards	(229)	(71)	(189)		
Income (expense) resulting from share based payment transactions	3	(1)	4		
Provision for a retirement plan in MDB	-	-	(22)		
Salaries and Related Expenses - Disregarding certain components	**3,393**	**3,372**	**3,259**	**0.6**	**3.5**

The rise in payroll expenses in 2013, compared with the preceding year, was mainly affected by the change in provisions for awards and by a provision in respect of the wage agreement, recorded on the basis of the Bank`s Management assessment.

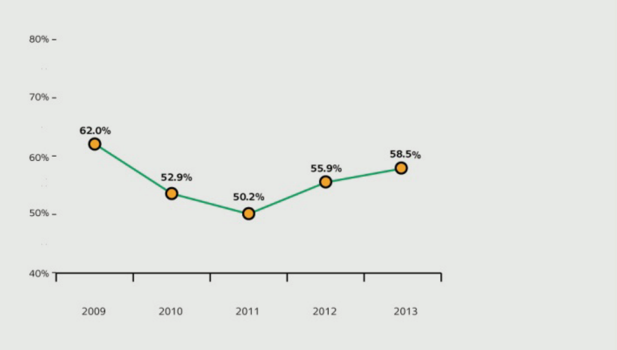
Salaries expenses, excluding related expenses, amounted in 2013 to NIS 2,410 million, compared with NIS 2,253 million in 2012, an increase of 7.0%.

Operating Expenses to Total Income



Interest Income, net - Consolidated

Coverage Ratio



Efficiency Ratio

Following is the condensed statement of comprehensive income:

	for the year ended December 31		
	2013	2012	Change
	in NIS millions		in %
Net income attributed to the Bank's shareholders	874	802	9.0
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss), before taxes[(1)]	(623)	593	
Effect of attributed taxes	167	(259)	
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	(456)	334	
Comprehensive income, attributed to the Bank's shareholders	**418**	**1,136**	**(63.2)**

Footnote:
(1) The change in the item other comprehensive income before taxes stems, mainly, from realizations of securities from the available-for-sale portfolio, the profits thereof have been classified to net income. For additional details, see Note 33.

DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at December 31, 2013 amounted to NIS 200,507 million, compared with NIS 201,012 million at the end of the preceding year, a decrease of 0.3%.

Following are the developments in the principal balance sheet items:

	As at December 31		
	2013	2012	Change
	in NIS millions		in%
Assets			
Cash and deposits with banks	25,319	24,100	5.1
Securities	41,325	46,001	(10.2)
Credit to the public, net	115,859	117,611	(1.5)
Liabilities			
Deposits from the public	148,928	151,935	(2.0)
Deposits from banks	4,213	3,720	13.3
Securities loaned or sold under repurchase arrangements	3,644	5,452	(33.2)
Subordinated capital notes	11,664	12,284	(5.0)
Equity attributed to the Bank's shareholders	12,233	11,838	3.3
Total equity	12,538	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, as at December 31, 2013, amounted to NIS 115,859 million, compared with NIS 117,611 million on December 31, 2012, a decrease of 1.5%. The ratio of credit to the public to total assets reached 57.8% at the end of 2013, compared with 58.5% at the end of 2012. For details regarding credit risk management, see "Credit risk management" under "Exposure to risks and risk management" hereunder. For details regarding the quality of credit, see Note 4 to the financial statements. For details regarding the housing credit portfolio at the Discount Group, see "Mortgage Activity" under "Further details as to activity in certain products".

COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

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

	December 31, 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	69,874	60.3	68,444	58.2	2.1
CPI-linked shekels	17,388	15.0	17,542	14.9	(0.9)
Foreign currency and foreign currency-linked shekels	28,597	24.7	31,625	26.9	(9.6)
Total	**115,859**	**100.0**	**117,611**	**100.0**	**(1.5)**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 9.6% compared with December 31, 2012. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels decreased by US$233 million as compared to December 31, 2012, a decrease of 2.7%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in dollar terms, increased by 0.3% 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:

	December 31, 2013		December 31, 2012[1]		
	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	39,956	34.5	38,199	32.5	4.6
Of which - housing loans	19,753	17.0	19,440	16.5	1.6
Retail - small business segment	13,108	11.3	12,100	10.3	8.3
Corporate banking segment	40,807	35.2	45,363	38.6	(10.0)
Middle market banking segment	18,612	16.1	18,327	15.6	1.6
Private banking segment	3,376	2.9	3,622	3.0	(6.8)
Total	**115,859**	**100.0**	**117,611**	**100.0**	**(1.5)**

Footnote:
(1) Reclassified following a reclassification made by Mercantile Discount Bank designed to reflect a change in the change in the average balances of liabilities in respect of credit cards.

The decline in the credit granted to the corporate banking segment derives from a restricting credit policy in respect of this segment, in view of the limitation on capital, the continued implementation of the Bank's plan for the reduction of exposure to vulnerable credit areas with a focus on reduction in exposure to holding companies and the financing of acquisition of means of control, and from the decline in the demand for credit on the part of customers belonging to this segment. The decline in credit to the corporate banking segment has been accompanied by the increase in credit to the retail segment.

COMPOSITION OF CREDIT TO THE PUBLIC BY ECONOMIC SECTORS

Following are the developments of credit exposure, by major economic sectors:

	December 31, 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	1,179	0.6	1,486	0.8	(20.7)
Industry	22,662	12.3	(1)23,642	12.4	(4.1)
Construction and real estate - construction	14,743	8.0	15,854	8.3	(7.0)
Construction and real estate - real estate activity	17,121	9.3	(1)17,268	9.0	(0.8)
Electricity and water	3,392	1.8	3,457	1.8	(1.9)
Commerce	19,838	10.7	19,691	10.3	0.7
Hotels, hotel services and food	2,898	1.6	2,926	1.5	(1.0)
Transportation and storage	4,189	2.3	4,952	2.6	(15.4)
Communications and computer services	2,507	1.4	2,617	1.4	(4.2)
Financial services	21,504	11.6	(1)26,622	13.9	(19.2)
Other business services	8,369	4.5	9,566	5.0	(12.5)
Public and community services	4,876	2.6	(1)4,325	2.3	12.7
Private individuals - housing loans	21,124	11.4	20,725	10.8	1.9
Private individuals - other	40,610	21.9	(1)37,961	19.9	7.0
Total overall credit to the public risk	**185,012**	**100.0**	**191,092**	**100.0**	**(3.2)**
Banks	12,641		13,340		
Governments	28,486		30,346		
Total	**226,139**		**234,778**		

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

The data presented above shows that compared with 2012, the share of private individuals in the total volume of credit to the public increased. On the other hand, the share of financial services and other business services sectors decreased.
For additional details, see Schedule E to the Management Review.

DEVELOPMENT OF PROBLEMATIC CREDIT RISK

Problematic credit risk[(1)] and non performing assets:

	December 31,2013			December 31,2012		
	Credit Risk					
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
Impaired credit risk	[(3)(4)]3,873	295	4,168	[(3)(4)]5,527	140	5,667
Substandard credit risk	999	16	1,015	[(7)]581	31	612
Special mention credit risk[(2)]	[(5)(6)]2,085	475	2,560	[(5)(6)(7)(8)]2,217	546	2,763
Total Problematic Credit Risk	**6,957**	**786**	**7,743**	**8,325**	**717**	**9,042**
Of which: Non impaired debts, in arrears for 90 days or more[(2)]	531			667		
Non-performing assets:						
Impaired debts - non accruing interest income	3,327			4,694		
Assets received in respect of credit settlement	2			-		
Total Non-Performing Assets	**3,329**			**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 the amount of NIS 8 million (December 31, 2012 – NIS 22 million and non-accruing bonds of foreign financial institutions in the amount of NIS 48 million).

(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 13 and12 million as of December 31, 2013, December 31, 2012, respectively.

(5) Including accruing corporate bonds in the amount of NIS 7 million (December 31, 2012 – NIS 72 million and accruing bonds of foreign financial institutions in the 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 163 and 259 million as of December 31, 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 4 to the financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing an non-accruing) amounted at December 31, 2013 to NIS 3,852 million, compared to NIS 5,445 million at December 31, 2012, a 29.3% decrease. The decline stems, among other things, from collections, the realizations of collateral and accounting write-offs.

Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2013 to NIS 3,306 million, compared to NIS 4,612 million at December 31, 2012, a decrease at a rate of 28.3%.

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

	December 31, 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	22,662	1,623	7.2	(1)23,642	(1)1,163	4.9
Construction and real estate - construction	14,743	979	6.6	15,854	1,588	10.0
Construction and real estate - real estate activity	17,121	1,478	8.6	(1)17,268	(1)1,749	10.1
Commerce	19,838	1,043	5.3	19,691	1,026	5.2
Financial services	21,504	600	2.8	(1)26,622	(1)1,116	4.2
Private individuals - housing loans	21,124	477	2.3	20,725	473	2.3
Private individuals - other	40,610	357	0.9	(1)37,961	(1)421	1.1
Other Sectors	27,410	1,186	4.3	29,329	1,421	4.8
Total Public	**185,012**	**7,743**	**4.2**	**191,092**	**8,957**	**4.7**
Banks	12,641	-	-	13,340	85	0.6
Governments	28,486	-	-	30,346	-	-
Total	**226,139**	**7,743**	**3.4**	**234,778**	**9,042**	**3.9**

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 2,134 million as of December 31, 2013. The balance of this allowance constitutes 1.81% 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.

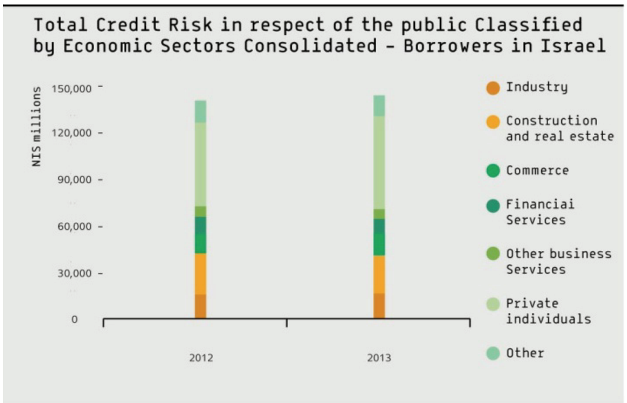
The balance of the specific allowance for credit losses. The outstanding balance of the allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 459 million on December 31, 2013, compared to NIS 490 million on December 31, 2012.

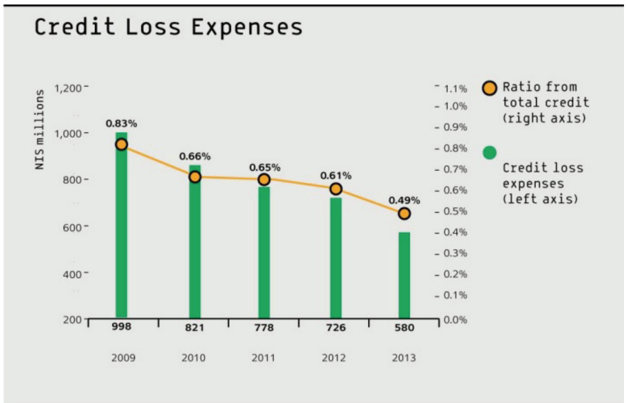
The balance of the group allowance for credit losses. The balance of the group allowance for credit losses in respect of customers examined on a specific basis, and which are not impaired, amounted at December 31, 2013 to NIS 950 million, compared with NIS 850 million on December 31, 2012, an increase of NIS 100 million in the current allowance, a rate of 11.8%. These changes were principally affected from increases 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 December 31, 2013 to NIS 467 million, compared to NIS 519 million as of December 31, 2012, comprising a decrease in the current allowance in the amount of NIS 52 million, a rate of 10%.

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

	December 31,2013	December 31,2012
Ratio of balance of impaired credit to the public to balance of credit to the public	3.3%	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%	0.6%
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%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	55.4%	38.3%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public[1]	4.2%	4.7%
Ratio of credit loss expenses to the average balance of credit to the public.	0.49%	0.61%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public.	0.4%	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.	23.2%	29.3%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for ninety days and over	48.7%	34.1%
Footnote:		
(1) Disregarding certain bonds of bank holding companies (TRUPS), which are held by a subsidiary	4.1%	4.5%





THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO

Following are the rates of the credit loss expenses in certain sectors, in relation to the balance of debts, regarding credit to the public in these sectors:

sectors	2013	2012
Construction and real estate - real estate activity	0.4%	0.1%
Hotels, hotel services and food	0.2%	0.4%
Commerce	1.4%	0.8%
Industry	1.3%	1.6%
Communications and computer services	0.9%	[1](0.1%)
Financial services	[1](0.1%)	2.7%
Other business services	0.2%	0.3%
Total overall credit to the public risk	0.5%	0.6%

Footnote:
(1) Decrease in allowance

The data presented above shows that the ratio of expenses for credit losses to the balance sheet credit to the public in the total credit portfolio, decreased compared with 2012. This decrease related mostly to the financial services, industrial, construction and hotels, hotel services and food sectors. The rate of expense in the commerce, industrial and communications and computer services sectors was higher than the rate of expense for 2013 relating to the overall credit portfolio.

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

	Year ended December 31			
	2013		2012	
sectors	Credit loss expenses	Rate from total annual expenses	Credit loss expenses	Rate from total annual expenses
	In NIS millions	%	In NIS millions	%
Industry	194	33.4	240	33.1
Construction and real estate - real estate activity	55	9.5	20	2.8
Commerce	216	37.2	123	16.9
Financial services	(5)	(0.9)	256	35.3
Other business services	10	1.7	20	2.8
Private Individuals - Housing Loans	31	5.3	-	-

The data presented above shows that the weight of the real estate activity sector, housing loans and the commerce sector in the total credit loss expenses increased compared to 2012. On the other hand, the weight of the financial services and other business services sectors in the total expense decreased compared with 2012.

DEVELOPMENTS IN CREDIT TO THE PUBLIC, INCLUDING OFF-BALANCE SHEET CREDIT RISK BY BORROWER SIZE (CONSOLIDATED)

Approx. 99.5% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 34.7% of total credit to the public as at December 31, 2013, compared with 32.4% as at December 31, 2012. The credit bracket between NIS 1.2 million and NIS 200 million constitutes about 48.6% of all credit as at December 31, 2013, compared with 48.7% as at December 31, 2012.

The 58 largest borrowers, in the credit brackets between NIS 200 million and NIS 3,945 million, were granted credit constituting 16.7% of total credit to the public as at December 31, 2013, compared with 65 borrowers that were granted credit constituting 18.9% of the total credit as at December 31, 2012.

For details regarding credit levels in excess of NIS 800 million, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part C, item 3).

SECURITIES

General. Securities in the nostro portfolio amounted to NIS 41,325 million as at December 31, 2013, compared with NIS 46,001 million at the end of 2012, a decrease of 10.2%. It is clarified that the "nostro" portfolio to the Discount Group as of December 31, 2013, did not include any security the investment in which comprised 5% or more of the value of the total portfolio, except for one class of security, of the "government variable 520" type, which amounted to 7.5% of the total portfolio.

As of December 31, 2013, some 63% of the portfolio is invested in Government bonds, and 15% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE).

For details regarding the breakup 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 5).

Nostro portfolios management policy. The Bank's "nostro" investment portfolios 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 Board of Directors and the Boards of Directors of the subsidiaries.

The assets and liabilities management committee is the factor that determines in practice the composition of the portfolio managed by the assets and liabilities unit, subject to the limitations determined by the Bank`s Board of Directors, and accepts mostly, as stated, interest risks.

The Bank`s "Nostro" unit is subject to decisions taken by the investment committee and to the framework set by the Bank`s Board of Directors. The credit and interest risks, being part of the Group investment portfolio, are being managed through the management of the investment portfolio by the "Nostro" unit.

The investment activities of the subsidiary companies, mainly in IDB New York and Mercantile Discount Bank are being performed independently, subject to risk limitations specified by the Bank.

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

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

	December 31, 2013	December 31, 2012	Rate of change in %
	In NIS millions		
Non-linked shekels	20,804	22,122	(6.0)
CPI-linked shekels	5,474	5,211	5.0
Foreign currency and foreign currency-linked shekels	14,182	17,962	(21.0)
Shares - non-monetary items	865	706	22.5
Total	**41,325**	**46,001**	**(10.2)**

Securities in foreign currency and in Israeli currency linked foreign currency decreased by 21.0% compared with December 31, 2012. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency decreased by US$726 million, a decrease of 15.1% 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, decreased by 7.8% 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 to the above categories:

	December 31 ,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	7,174	7,424	7,174	6,988	7,436	6,988
Available for sale	30,940	31,108	31,108	34,800	35,356	35,356
Trading	2,181	2,178	2,178	2,963	2,951	2,951
Shares						
Available for sale	838	852	852	703	704	704
Trading	14	13	13	5	2	2
Total Securities	**41,147**	**41,575**	**41,325**	**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 165 million as of December 31, 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 14 million (December 31, 2012: an amount of NIS 11 million).

Corporate bonds. Discount Group’s available for sale securities portfolio as of December 31, 2013, includes investments in corporate bonds in the amount of NIS 4,121 million (an amount of NIS 1,313 million is held by IDB New York and an amount of NIS 1,938 million, directly by the Bank), compared with NIS 4,075 million as of December 31, 2012 (an amount of NIS 1,939 million was held at IDB New York and an amount of NIS 1,048 million is held directly by the Bank). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 3 to the financial statements.

Data by market segments. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see Annex "A" to the Report of the board of Directors, forming an integral part thereof, Sections 1, 2 and 3, respectively.

Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 3 C to the financial statements.

INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

General. Discount Group’s securities portfolio as of December 31, 2013 includes investment in mortgage backed securities in the amount of US$2,326 million (NIS 8,072 million), which are held by IDB New York, compared to an amount of US$3,034 million as at December 31, 2012 (NIS 11,326 million), a decrease of 23%. Most of the mortgage backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA+ rating in the U.S. (the lowering of the rating of the said bonds from "AAA", stems from the lowering of the credit rating of the United States). The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2013, the portfolio of mortgage backed securities (MBS) included unrealized net losses of US$57 million (NIS 199 million).

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.

The market for GSE Mortgage Backed Securities (MBS) has always operated under the assumption that these securities had the implicit guarantee of the U.S. Government, as such the actions taken by the Federal Government, placing the GSE into conservatorship were welcomed by the market.

These measures adds to market stability by providing additional security to GSE debt holders - senior and subordinated and adds to mortgages affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

All of the GSE-MBS held by IDB New York are performing up to their conditions.

In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.

Direct investments in Federal Agencies' bonds. The securities portfolio of the Discount Group as at December 31, 2013, includes a direct investment in Federal Home Loan Bank (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 (NIS 87 million), compared to US$76 million (NIS 284 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 held 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). In the fourth quarter of 2013, IDB New York sold all the securities of the CLO type, as part of the preparations for the implementation of the Volker Rule (see below "U.S. Legislation" under "Legislation and Supervision"). As a result of the said sale a loss of US$1.7 million was recorded (NIS 5.9 million).

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.

As at December 31, 2013, unrealized accumulated losses in respect of available-for sale shares amounted to an amount of approx. NIS 1 million. As of December 31, 2012, unrealized accumulated losses on available-for-sale mortgage backed securities amounted to NIS 64 million. For additional details, see Note 3D to the financial statements.

Unrealized losses on available-for-sale securities (including available-for-sale mortgage backed securities) amounted on December 31, 2013, to NIS 377 million (December 31, 2012: NIS 258 million). For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 3D to the financial statements.

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 5).

Review of impairment of securities. For details regarding the considerations involved in the decision as to the type of losses accumulated in respect of securities see below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements. Based on a review of the impairment of the said securities, and where relevant, basing itself also on the review made by the relevant subsidiary, the Bank's Management believes that the impairment is of a temporary nature.

In 2013, a provision for impairment of a non-temporary nature with regard to a number of securities amounting to NIS 33 million (in 2012: NIS 28 million).

For further details see Note 3 to the financial statements.

DEPOSITS FROM THE PUBLIC

Deposits from the public as at December 31, 2013, amounted to NIS 148,928 million, compared with NIS 151,935 million at the end of the preceding year, a decrease of 2.0%.

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

	December 31, 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	85,467	57.4	83,620	55.1	2.2
CPI-linked shekels	10,797	7.2	10,363	6.8	4.2
Foreign currency and foreign currency-linked shekels	52,664	35.4	57,952	38.1	(9.1)
Total	**148,928**	**100.0**	**151,935**	**100.0**	**(2.0)**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased at the rate of 9.1%, compared with December 31, 2012. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased by US$352 million, an increase of 2.3% compared with December 31, 2012. 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 by 0.6%, as compared with December 31, 2012.

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

	December 31, 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-%
Retail - household segment	65,361	43.9	67,090	44.2	(2.6)
Retail - small business segment	15,996	10.7	15,808	10.4	1.2
Corporate banking segment	23,503	15.8	21,531	14.2	9.2
Middle market banking segment	10,678	7.2	(1)9,739	6.4	9.6
Private banking segment	33,390	22.4	(1)37,768	24.8	(11.6)
Total	**148,928**	**100.0**	**151,935**	**100.0**	**(2.0)**

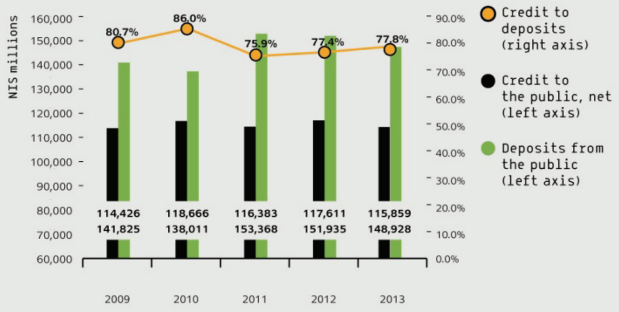
Footnote:

(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.

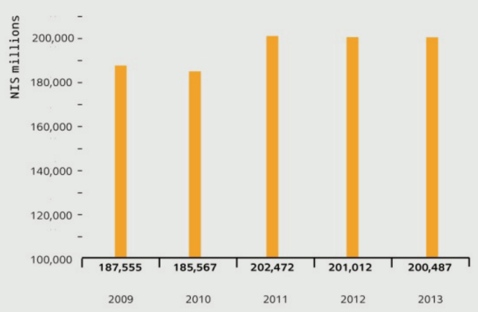
The decline in deposits in the private banking segment derived, mostly, from the classification of assets and liabilities of DBLA as "held for sale" (see note 8A to the financial statements).

The ratio of total credit to the public, net, to deposits from the public was 77.8% at the end of 2012, compared with 77.4% at the end of the previous year.

Development of Credit to the Public and Deposits from the Public - Consolidated



Development of Total Assets - Consolidated



CAPITAL RESOURCES

PREPARATIONS FOR THE ADOPTION 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 targets for the core capital at the rate of 8% by the end of 2012 and 8.5% by the end of 2013. The Bank attained the determined goals, as stated.

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 were applied 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 would not be possible to issue such capital instruments to the public, in the immediate time range, 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 disclosure is given in Note 14 and hereunder presents the expected effect of the adoption of the Basel III instructions, showing expected data as of January 1, 2014, computed in accordance with the Basel III instructions.

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 December 31, 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 0.5% from 9.3% to 8.8%.

Long-term effect. The Bank estimates that had the guidelines included in the Directive been implemented in full as of December

31, 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, at the end of nine years since the date of initial implementation of the directive, including the effect of the discount rate in computing employee rights, as detailed in Note 1E (5), though without taking into consideration earnings that will accumulate during the period), the core capital ratio would have declined by 1.9%, from 9.3% to 7.4%.
It should be emphasized that the data presented above, as an estimate of the short and long-term effect, reflect only an assessment. This and more, 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 December 31, 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 for a short and long-term will inevitably be different than from the estimates stated above.
Preparations made by the Bank. The Bank prepared 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, and it is acting towards its implementation. For details regarding the examination of the possibility of the sale of holdings in Bancorp during 2013, see below under "Main investee companies".

For further details, see "Basel III" under "Exposure to risks and risk management".

CAPITAL MANAGEMENT

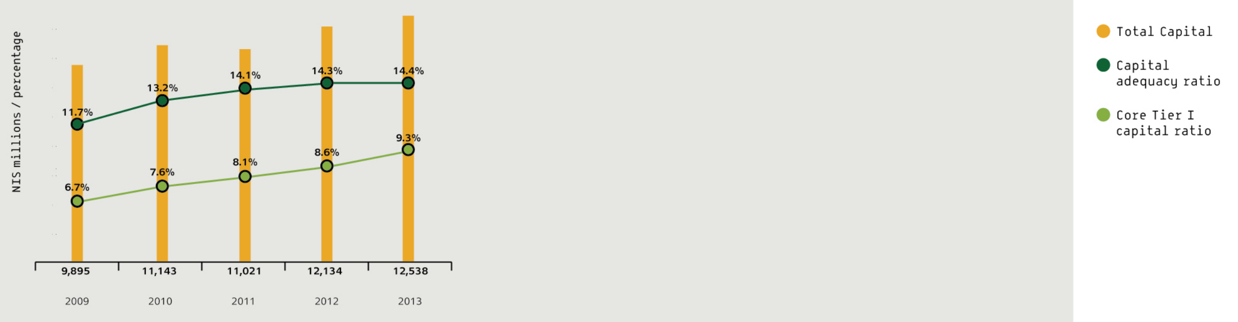
The capital management process is composed of the following stages:
- **Determination of the capital goals in the work plan.** The capital goals in the work plan are determined by the Bank's Board of Directors, taking into consideration the competitive environment in which the Bank operates, the capital adequacy review performed by the Chief Risk Manager, an evaluation of the implications on the computed capital ratios of the implementation of the Basel III instructions and regulatory requirements.
- **Formation of the risk appetite and determining a capital cushion.** The risk appetite is reflected in determining the size of the capital cushion held by the Bank, in order to assure the attainment of the capital goals under changing market and profitability conditions. The Bank determined a capital cushion based on a varied analysis of profitability tests, volatility of the capital reserve and the exchange rate.
- **Deriving the maximum growth in the volume of risk assets.** Following the determination of the capital goals and the required capital cushion, and in view of the risk appetite and the assumptions made in the preliminary work plan, the overall growth limitation of risk assets was computed.
- **Risk assets budget.** The Bank has determined a restraining risk asset budget for the years 2013 and 2014, with a view of attaining the capital targets determined by the Supervisor of Banks.
- **Allocation of risk assets among the business units and the subsidiary companies.** The process of allocating risk assets among the business units and the subsidiaries in the Group is an outcome of the determination of the capital goal and formation of the strategic planning. At the beginning of 2014, a mix was determined regarding the application of risk assets, at the Bank and at its subsidiaries, which would maximize the return on capital of the Group. Within the framework of this process, a mapping had been performed of the capital needs of each company in the Group, and decisions had been taken regarding the allocation of risk asset facilities on the basis of business considerations of maximization of profits and additional strategic considerations.

- **Capital management and monitoring.** In order to assure attainment of the determined capital adequacy goal, the Bank performs ongoing monitoring operations as part of the capital management process. Monitoring includes monthly reporting to the Board of Directors and Management, within the framework of which the principal changes in the capital components and in risk assets are being analyzed.

Capital management at the subsidiary companies. The capital goals determined in the process of the Group capital management serve as guiding principles and have been adopted by the subsidiary companies. These goals serve as a basis for planning the individual capital of each company, with required adjustments. The capital planning by the subsidiary companies is performed using similar methodology to that used in the planning of the group capital.

Capital maneuverability. During the years 2012-2013, the Bank withdrew excess capital from the subsidiary companies by way of dividend distribution. Mercantile Discount Bank distributed NIS 120 million and NIS 150 million, respectively. ICC distributed NIS 100 million (the Bank's share approx. NIS 71.8 million) and NIS 291 million (the Bank's share approx. NIS 209 million), respectively. In 2012 IDB New York distributed US$100 million to its direct parent company, Bancorp. In the months of December 2013 and January 2014, the Board of Directors of Bancorp decided on the payment of a dividend to Discount Bank in a total amount of US$80 million. The aim of the transfer of capital to the Bank is to avoid the creation of excess capital and to maintain in each of the subsidiaries of the Group a level of capital that matches the risk level managed by it.

Capital Adequacy (Basel II)



COMPONENTS OF CAPITAL

Total capital as at December 31, 2013, amounted to NIS 12,538 million, compared with NIS 12,134 million at December 31, 2012, an increase of 3.3%.

Equity attributed to the Bank's shareholders as at December 31, 2013, amounted to NIS 12,233 million, compared with NIS 11,838 million at December 31, 2012, an increase of 3.3%.

The change in equity attributed to the Bank's shareholders in 2013 was affected, among other things, by earnings in 2013, by a decrease of NIS 236 million in the "net adjustments for the presentation of available for sale securities at fair value, net of tax" item and from a decrease of NIS 224 million in financial statements transactions adjustments.

The ratio of total capital, to total assets as at December 31, 2013, stood at 6.3%, compared with 6.0% as of December 31, 2012.

COMPONENTS OF THE REGULATORY CAPITAL AS OF DECEMBER 31, 2013 (BASEL II)

General. The components of the regulatory capital as of December 31, 2013, stated below, have been measured according to the Basel II guidelines, which still applied at this date. As stated, starting with January 1, 2014, the new instructions in accordance with the Basel III guidelines will gradually take effect. Data regarding the expected effect of the adoption of the Basel III instructions as of January 1, 2014, are presented hereunder and in Note 14 to the financial statements.

Ratio of tier 1 capital to risk assets as of December 31, 2013, reached a rate of 10.1%, compared with 9.3% at the end of 2012.

The core capital ratio as of December 31, 2013, reached a ratio of 9.3%, compared with 8.6% as of December 31, 2012. 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 to the financial statements), 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).

Ratio of original tier 1 capital to risk assets ("original tier 1 capital to risk assets ratio" in Basel I terms), reached a rate of 9.3% as of December 31, 2013, compared with 8.6% at the end of 2012.

The ratio of total capital to risk assets, as at December 31, 2013, reached a rate of 14.4%, compared with 14.3% at the end of 2012.

Raising of Lower Tier 2 Capital. No lower Tier 2 capital was raised in 2013.

COMPONENTS OF THE REGULATORY CAPITAL AS OF JANUARY 1, 2014 (BASEL III)

	In accordance with the instructions of the Supervisor of Banks applying on 31.12.2013 (Basel II)	The anticipated effect of the implementation of Basel III	Explanations	In accordance with the instructions of Basel III 1.1.2014
	In NIS millions			
A. Capital for calculating ratio of capital				
Core capital/common equity tier 1, post deductions	12,266	98	A	12,364
The remaining components of tier 1 capital/Additional tier 1 capital, after deductions	1,016	120	B	1,136
Tier 2 capital post deductions	5,663	461	C	6,124
Total capital	**18,945**	**679**		**19,624**
B. Weighted credit risk assets balance				
Credit risk	117,138	6,598	D	123,736
Market Risk	2,588	-		2,588
Operational risk	12,217	-		12,217
Total weighted credit risk assets balance	**131,943**	**6,598**		**138,541**
C. Ratio of capital to risk assets				
Data of the Bank:				
Ratio of core capital to risk assets	9.3	(0.4)		8.9
Ratio of tier 1 capital to risk assets	10.1	(0.4)		9.7
Ratio of total capital to risk assets	14.4	(0.2)		14.2
Ratio of minimum capital required by the Supervisor of Banks				
Ratio of core capital	7.5	1.5		(1)9.0
Ratio of total capital	9.0	3.5		(1)12.5

(1) As from January 1, 2015

It should be noted, that whereas the data presented above is as of January 1, 2014, it reflects deductions, in accordance with the transitional instructions, amounting to one quarter of the expected annual deduction for 2014 (in accordance with the approval of the Supervisor of Banks, in certain cases, for a linear quarterly deduction during the year).

The principal factors expected to affect the regulatory capital and the weighted risk assets balances, following the adoption of the Basel III instructions:

A. Common Equity Tier 1 (which in terms of Basel II was named "core capital") after deductions, increased by NIS 98 million, due to the following main factors:

- An increase of NIS 179 million, in respect of unrealized gains on adjustment to fair value of available-for-sale securities, which under Basel II had been presented as part of the tier 2 capital (45% of the said gains before the effect of applicable tax), and which, under the instructions of Basel III, are presented as part of common equity tier 1.
- A decrease of NIS 31 million in respect of minority interests. Under the Basel II instructions, these interests had been included in full as part of the core capital, while under the instructions of Basel III it is possible to recognize minority interests as part of common equity tier 1 within the limits of the minimum capital required by the subsidiary company to cover its risk assets (while the excess amount is deducted from common equity tier 1, gradually, over a period of five years).
- A decrease of NIS 63 million in respect of deductions from common equity tier 1. In accordance with Basel III instructions it is required to deduct from capital, among other things, amounts representing deferred taxes and amounts in respect of investments in financial corporations, which are in excess of the minimum amounts computed in accordance with the rules stated in the instruction. According to the transitional instructions, such deductions shall be made gradually from common equity tier 1 over a period of five years.

B. Additional tier 1 equity capital (which in terms of Basel II was named "remaining components of tier 1 capital), after deductions, has increased by NIS 120 million, an increase resulting of the following main components:
- A decrease of NIS 356 million in respect of tier 1 hybrid capital. The tier 1 hybrid capital, which according to the Basel II instructions had been presented as part of common equity tier 1, is no longer qualified under the Basel III instructions, however, according to the transitional instructions it may be included in the additional tier 1 equity capital, and to be deducted over a period of nine years. The said decrease reflects the deduction in respect of the year 2014 (in accordance with the transitional instructions, the deduction for 2014 is at the rate of 20% while in future years the annual deduction will be at the rate of 10%).
- On the other hand, an addition is included in respect of investments in financial corporations in the amount of NIS 474 million. According to the Basel II instructions, investments in financial corporations had been deducted from capital as follows: 50% from tier 1 equity capital and 50% from tier 2 capital. In accordance with the Basel III instructions the part of the amount of investment that is not deducted from capital is presented as a risk asset (multiplied by 250%), the balance being deducted from common equity tier 1 (see A above), and in accordance with the transitional instructions, a part of it is deducted according to the format that had been in effect before the transition to implementation of the Basel III instructions.

C. Tier 2 capital after deductions increased by an amount of 461 million, as a result of the effect of the following principal factors:
- An increase of NIS 1,289 million in respect of the balance of the group allowance (excluding allowance based on the extent of arrears). According to the Basel II instructions it had been possible to include as tier 2 capital, the amount of the general allowance recorded in the Bank's books (in the amount of NIS 254 million). According to Basel III instructions, it is possible to include in tier 2 capital the balance of the group allowance, subject to a maximum limit, the form of calculation thereof is stated in the instruction. The balance of the group allowance was not in excess of the computed amount of the limit.
- A decrease of NIS 1,218 million, in respect of the deduction of subordinate debt notes. In accordance with the Basel II instructions, the Bank had included certain debt notes as upper tier 2 capital, while other debt notes had been included as tier 2 capital. Such debt notes are no longer qualified under the Basel III instructions, however, under the transitional instructions, these may be included in tier 2 capital and deducted over a period of nine years. The said deduction reflects the deduction in respect of the year 2014 (the deduction for 2014 is at the rate of 20%, while in future years the annual deduction will be at the rate of 10%).
- Addition of NIS 504 million, in respect of investments in financial corporations (see B. above)
- A decrease of NIS 114 million, in respect of unrealized gains on securities (see A. above).

D. Increase of NIS 6,598 million in total risk assets, which were affected by the following factors:
- Additional risk assets in respect of the CVA risk, computed on the basis of required capital of 12.5% (namely, multiplication of the amount by 1,250%), amounting to NIS 1,144 million.
- An amount of NIS 3,686 million being the computed effect, in accordance with the instruction and transitional instructions, of deferred taxes and investments in financial corporations, part of which had been deducted fron tier 1 capital (see A above).
- An addition of NIS 1,289 million, in respect of the balance of the group allowance, which had been included in tier 2 capital in the amount of the permitted balance.
- An addition to risk assets in the amount of NIS 430 million, in respect of the application of a risk weight of 150% also to not accruing interest impaired debts. Under Basel II, the application of the risk weight of 150% related only to debts in arrear for 90 days and over.

ADDITIONAL DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL

Within the framework of the "Additional disclosure according the third pillar of Basel" document, a description is given of the principal characteristics of the issued regulatory capital instruments (part "A" of the document) and a disclosure of the composition of the regulatory capital (part "B" of the document). The document is available for perusal on the Magna Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank`s website together with the Bank's 2013 annual report (the present report). The information included in parts "A" and "B" of the document is presented here by way of reference.

CAPITAL STRUCTURE

CAPITAL ADEQUACY DATA

	December 31	
	2013	2012
	in NIS millions	
1. Capital for Calculating ratio of capital		
Tier 1 capital less deductions	13,282	12,562
Tier 2 capital less deductions	5,663	6,862
Total capital for calculating capital ratio	**18,945**	**19,424**
2. Weighted risk assets balance		
Credit risk	117,138	120,686
Market risk	2,588	2,238
Operational risk[2]	12,217	12,788
Total weighted risk assets balance	**131,943**	**135,712**
3. Ratio of capital to risk assets[1]		
Ratio of original tier 1 capital to risk assets	9.3	8.6
Ratio of tier 1 capital to risk assets	10.1	9.3
Ratio of total capital to risk assets	14.4	14.3
Total minimum capital ratio required by the Supervisor of Banks	9.0	9.0

Footnote:
(1) For details regarding the capital ratio of significant banking subsidiaries and additional details, see Note 14 to the financial statements.

CAPITAL STRUCTURE

	December 31	
	2013	2012
	in NIS millions	
A. Components of capital		
Tier 1 capital		
Paid up regular share capital	4,099	4,099
Retained earnings	8,054	7,203
Other capital reserves	(93)	131
Non-controlling interests	305	296
Adjustments regarding put options granted to the non-controlling interests holders in a consolidated company	83	81
Total core capital	**12,448**	**11,810**
Innovative hybrid instruments	1,781	1,747
Amounts deducted from tier 1 capital:		
Goodwill	(142)	(142)
Net losses on fair value adjustments of available for sale securities	(6)	(10)
Tier 1 capital less deductions from this tier's capital only	14,081	13,405
50% deductions from tier 1 capital (see B below)	(799)	(843)
Total tier 1 capital	**13,282**	**12,562**
Tier 2 capital		
45% of net gains before tax effect relating to adjustments to fair value of available for sale securities	114	297
General allowance for doubtful debts	254	254
Preferred shares	2	2
Innovative hybrid capital instruments	1,410	1,383
Subordinated capital notes	4,682	5,769
50% deductions from tier 2 capital (see B below)	(799)	(843)
Total tier 2 capital	**5,663**	**6,862**
Total qualified capital	**18,945**	**19,424**
B.50% deductions from tier 1 capital and from tier 2 capital		
Investments in financial companies with significant influence[(1)]	1,598	1,687
Total deductions	**1,598**	**1,687**

Footnote:

(1) Of which, NIS 1,530 millions in respect of FIBI (December 31,2012: NIS 1,624 millions).

RISK ASSETS

	December 31			
	2013		2012	
	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	887	80	697	63
Public sector entities	1,570	141	1,078	97
Banking corporations	4,295	387	3,697	333
Corporations	73,768	6,639	78,656	7,079
Secured by commercial real estate	1,773	160	2,370	213
Retail exposures for private individuals	14,095	1,269	13,550	1,220
Small business loans	7,177	646	7,311	658
Housing mortgages	7,680	691	7,530	678
Securitization	14	1	155	14
Other assets	5,879	529	5,642	508
Total risk assets and capital requirements in respect of credit risk	**117,138**	**10,543**	**120,686**	**10,863**
Risk assets and capital requirements in respect of market risk according to the standard approach	**2,588**	**233**	**2,238**	**201**
Risk assets and capital requirements in respect of operational risk according to the standard approach	**12,217**	**1,100**	**12,788**	**1,151**
Total risk assets and capital requirements	**131,943**	**11,876**	**135,712**	**12,214**

Footnote:

(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.

LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

GENERAL

A 15% increase was recorded during 2013 in the M1 money supply (cash held by the public and NIS current account bank deposits). About one half of the growth was recorded in the third quarter of 2013. Furthermore a growth of 7% was recorded in the M2 money supply (M1 together with non-linked deposits of up to one year), most of which in the second half of the year. During 2012 an increase of 9% was recorded in the M1 money supply and an increase of 8% in the M2 money supply.

The changes in the money supply reflected mostly a growth in current account deposits and in current credit deposits, and on the other hand, a decline in deposits of up to one year. This concurrently with the lowering of the interest rate and the increases on the capital markets. The said developments apparently led to the shifting from deposits of up to one year (on the background of the low interest rate) to liquid funds (allowing exploitation of opportunities on the capital markets). It should be noted that the decline in deposits of up to one year was in contrast to the growth trends recorded in 2012, on the background of the increase in uncertainty in that year, which led to bank deposits being preferred over more risky investment channels.

The monetary base grew in 2013 by NIS 6.4 billion, compared with NIS 0.7 billion in 2012. The growth in the monetary base in the reviewed period occurred, as stated, on the background of the lowered interest rate, and reflected a liquidity supply by the Bank of Israel, which was partly offset by Government absorption. It should be noted that most of the liquidity supply by the Bank of Israel was conducted through foreign currency conversion on the background of the strengthening Shekel, a move not adopted since July 2011. It should further be noted, that part of the liquidity supplied by the Bank of Israel during the year through the purchase of foreign currency, was setoff by activity on the open market (the issue of MAKAM short-term loans).

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

	2013	2012	change
	In NIS billion		in %
Operations on the Capital Market	6.3	8.1	(22.1)
The Shekel deposits tender	2.0	(1.0)	-
Foreign currency conversion	19.0	-	-
Government activity	(10.5)	(9.1)	-

THE BANK

Liquidity risk management policy at the Discount Group. See "Management of the Liquidity Risk" hereunder.

The Bank's liquidity risk management policy defines the Bank's risk appetite in terms of survival range in various liquidity scenarios, the concentration of resources – the ratio of the fifteen largest depositors shall not exceed 15% of total resources, and a limitation of 35% on the variable resources (deposits by corporations and banks) out of total resources.

Transferability of liquidity within the Group. The transfer of liquidity between the Group companies and the Bank is based on the money price mechanism established at the Bank. As stated, the subsidiary companies may not rely upon the transfer of liquidity where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty. During the course of 2012, U.S. dollar term liquidity in immaterial amounts was transferred to the Bank by IDB (Swiss) Bank and from IDB New York.

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

During the course of 2013, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a significant liquidity surplus. The following trends were observed during the year:

- A transition of liquidity from deposits to current account balances in an amount of NIS 3 billion in local currency and US$ 0.8 billion in foreign currency;
- An increase in the volume of CPI linked deposits at the rate of 0.4%;
- An increase at the rate of 4.1% in the volume of foreign currency deposits, most of which in retail deposits;
- The volume of shekel deposits remained unchanged, wholesale deposits rose while on the other hand retail deposits declined;
- An across the industry decrease in the cost of foreign currency liquidity, as measured in the SWAP and corporate deposits market.

In the course of 2014, the business environment is anticipated to significantly increase competition in the retail deposit market. This is the result of the anticipated implementation of the liquidity instruction of Basel III (LCR), which grants significant preference to retail deposits over wholesale deposits as well as the introduction of competing products like the DLF. The increased competition is expected to erode the retail deposit interest spreads, though it is not expected to materially affect the Bank`s liquidity situation. On the other hand, the spreads of wholesale deposits are expected to increase.

Deposits from the public:

	December 31, 2013	December 31, 2012	Change compared December 31, 2012	
	In NIS millions		In NIS millions	in %
Non-linked shekels	70,442	70,199	243	0.3
CPI-linked shekels	12,128	12,074	54	0.4
Foreign currency and foreign currency linked shekels	28,608	29,537	(929)	(3.1)
Total	**111,178**	**111,810**	**(632)**	**(0.6)**
Foreign currency and foreign currency linked shekels- In US$ millions	8,242	7,912	330	4.2

Deposits from Banks:

	December 31, 2013	December 31, 2012	Change compared December 31, 2012	
	In NIS millions		In NIS millions	in %
Non-linked shekels	1,000	1,038	(38)	(3.7)
CPI-linked shekels	468	275	193	70.2
Foreign currency and foreign currency linked shekels	869	1,805	(936)	(51.9)
Total	**2,337**	**3,118**	**(781)**	**(25.1)**

RAISING OF RESOURCES

Issuances of tier 2 capital in 2013. No Tier 2 capital was raised in 2013.

Subtraction of regulatory capital instruments in 2014. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2021. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2021. Regulatory capital instruments, which are to be subtracted in the course of 2014, in accordance with the transitional provisions, amount to NIS 1,575 million (of which an amount of NIS 581 million would have been deducted also in accordance with the Basel II instructions).

Disclosure regarding deposits. Within the framework of a new instruction regarding "disclosure of deposits" (see Note 1 C 5.3 to the financial statements), banking corporations are required to include in their Report of the Board of Directors, as from the 2013 annual report, information with respect to the volume of deposits made by the three largest depositors groups.

Deposits from the public of the three largest depositor groups amounted as of December 31, 2013, to NIS 6,191 million.

ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATION

GENERAL

A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - condensed description" under "The Discount Group - general overview and structure of the Group".

Details regarding the distribution of human resources in the Group according to segments of operation are included under "Human resources" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 31 to the financial statements. For details regarding the main differences between the managerial reporting and the public reporting format, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part C, item 4).

Reclassification of comparative data for segments of operations. The comparative data for prior periods have been reclassified following the reclassification made by Mercantile Discount Bank, intended to reflect the classification of large and institutional deposits from the private banking segment to the middle market segment and a change in the average balances of liabilities in respect of credit cards.

ADMINISTRATIVE STRUCTURE

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.

The Bank's business operations in 2013 were conducted by four divisions: Banking Division, Corporate Division, Finance Division and the Customer Assets Division.

The Banking Division conducts business with households, VIP customers, small companies and businesses, medium corporations (middle market) and customers of direct banking. The Division is responsible for the operation of the investment consultants and the pension consultants operating in branches and investment centers.

The Corporate Division is responsible for operations with the large corporations through business managers, the Tel Aviv main branch and its extensions, the foreign trade department, Diamond Exchange Branch and the London branch. Likewise, the Division is responsible for operations with segments of specific customers, such as: construction (real estate project financing) and infrastructure companies and large capital market operators.

The Finance Division is responsible for the management of assets and liabilities of the Bank and of the Group, the management of the dealing room, management of the capital and management of investor relations. It includes units of the economic department and also operating and control services for securities and divided between several units: assets and liabilities management, dealing room, investment unit, control and operating services regarding securities and derivatives, Chief Economist and Investors Relations. In addition, the Division is responsible for the subsidiaries BLD Ltd., Discount Manpikim Ltd. and Israel Discount Capital Market and Investments Ltd..

The Customer Asset Division is responsible for the Bank service to private banking customers, both Israelis and foreign residents. The Division is also responsible for the advisory services at the Bank – pension and securities advisory services – and for the initiating, developing and managing of the financial products offered to all customer segments. In addition, the Division is responsible for investment portfolio management (through "Tafnit Discount Asset Management"), for trusteeship services (through "Discount Trust") and for the subsidiary IDB (Swiss) Bank.

RETAIL SEGMENT - GENERAL

The Bank presents two retail segments: the "household segment" and the "small business segment". This general section includes several subjects that relate jointly to the two said segments.

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 10,000 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.
- **Family outing** – family members Discount are invited to enjoy together family benefits, by means of "Discount key". In each month customers are offered different family benefit at a reduced price.

THE BRANCHES AS THE CENTER OF RETAIL OPERATIONS

The branches are the central link in the relations between the Bank and the retail customer, the retail experience taking place at the meeting point of the retail customer with the Bank - in the branch. A customer visiting a branch should undergo a retail experience as a result of a combination of four major components: A pleasant appearance of the branch and its staff, quality service throughout his stay at the branch, clarity and simplicity of the products offered and messages given to him and the availability and timeliness of consumption - simple processes and efficient performance. The branches were modified to a customer focused structure, where against each group of customers the Bank provides a separate and different arrangement.

BANK BRANCHES

At the end of 2013, the Bank operated a country wide layout of 145 branches and extensions, being organized within the framework of 6 areas. Mercantile Discount Bank ("MDB") operated 80 additional branches. This following the closing down of two branches of the Bank during the year (Migdal Hayovel Branch and the "Discount your way" Branch at the Sharonim Mall).

For details regarding the modification of the branch network, complementary services and the consultation layout, see "The household segment" hereunder.

THE SEGMENT STRATEGY

A strategy that outlines a way according to which a distinct differentiation is to be made between customers in order to succeed in maintaining the customers and exhaust the potential inherent in them.
In the course of 2012, the Bank continued to improve the segmentation of customers of this sector in order to provide appropriate service to each segment. In addition to the distribution to service teams at the branches, based mainly on financial parameters, customers were classified into sub-segments enabling improvement of the level of service provided to the customer, including the range of products, services and lanes required by him.

CUSTOMER SEGMENTATION

In the household segment, which has been in focus in recent years, various strategic emphases were determined for operation with each segment, in accordance with its characteristics and needs. In recent years the Bank has focused on the private sector including all its segments. Based on a segmental study of this sector, strategic emphases have been put on the activity with each segment, according to its characteristics, needs and order of priorities of the Bank. Based on the segmentation of the private sector, account lanes have been established allowing, among other things, the granting of structured credit facilities in which the interest rate decreases as the facility is utilized, loans etc., while offering unique lanes to customers having financial wealth and/or salaried customers.
Modifying the credit products to the said population segments is achieved by initiating approach to the customer and accordingly adjusting the credit facility to the needs of the customer, their repayment ability, and the acquaintance with them over the years. The customer is offered loans modified to his needs and to life events, credit cards and structured credit facilities. This activity supports the development of the consumer credit field at the Bank and allows full compatibility with the needs of the customer.
In the small business sector three principal kinds of customers were identified: business, business plus and extended business. The segments are defined in relation to parameters of volume of operations vis-à-vis the Bank, as measured mainly in the credit field.

SERVICE CONCEPT

In 2013, the Bank focused on differentiating service according to customer segments, focused on the needs of the customer, including the modification of a variety of segment adjusted products.
Conduct of the service is based on the following principles:
- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;
- One stop shop - A comprehensive service to the customer at one service point;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enabling the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements;
- Familiarity and warm relations on the part of the service providers;
- Service initiative - anticipating the customer's needs and customizing products or services to such needs;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- The allocation of resources based on the requirements of the customer and the Bank's priorities.

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.

"DISCOUNT KEY"

In 2013, the Bank continued the unique marketing effort in the area of financial consumption – "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount’s credit cards (VISA CAL, Diners and MasterCard) enjoy discounts at over 120 marketing chains.

Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.

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.

OPERATIONAL EFFICIENCY IN THE BRANCHES

The process of removal from the branches of the operational activity concurrently with measures for improving efficiency and changes in performance concepts continued.

The activity was designed to achieve the following targets:

a. The customer may choose between teller assisted banking services and self service banking;
b. Removal of all operations not essential for customer service from the branch;
c. Simplifying and shortening the remaining processes at the branch;
d. Focusing on the customer and his needs in order to improve the service experience;
e. Reducing the amount of paperwork and filing at the branch;
f. Savings in manpower and costs.

All the Bank's branches have a self service banking area, where the customer is able to conduct most of their daily banking transactions, including check deposits, cash deposits and drawing services, foreign currency drawing services and effecting payments. Approx. 100 automatic machines provide foreign currency drawing services, deposit of cash in ATM services, and the depositing of checks in Information Desks service exist in all of the Bank's branches. A new service to customers will be launched in 2014, allowing the deposit of checks also at an ATM.

In 2013, the back-office continued to absorb new operations, which contributed to the simplification and cutting-down of processes in the branches. Concurrently, in 2013, the "making time at the branches" process was launched, moving out operations from the branches in order to free time for customer service and sales. The said project has been included as part of the areas of focus for 2014, supporting the Bank`s strategic subjects.

Furthermore, a new process was launched in 2013, for the distance control of checks, the impact which would be noticed in 2014. The deposit of checks by means of an ATM, which is transmitted on-line, will be handled in real time by a back office. This activity constitutes an important layer in efficiency of processes and in the savings in resources at the Bank's level.

The activity continued for taking over from the branches the filing and maintenance of basic documents and their integration in a manner that enables the business factor to view the documents of origin. The removal of basic documents has been carried out at about 91 branches until now. The continuation of this process in some 20 additional branches is planned for 2014. Removal of the daily paperwork has been carried out in all of the branches. These activities saved office space at branches, reduced the use of paper, shortened the time required for locating documents and reduces risks.

RETAIL BANKING - HOUSEHOLD SEGMENT

SERVICE

Banking products. The principal banking products available to customers of this segment include current account management, credit, deposits, capital market activity and credit card services, as well as loans for the purchase, lease, enlargement, renovation or construction of a residential unit, and the granting of loans for any purpose, secured by a mortgage on a residential unit.

Telebank - personal service. Customer telephone answering service - automatic direction to direct banking for customers calling the branch switchboard. The service enables to improve the quality of telephonic response and to afford the staff of the branch more time to create for the customer added value from the aspects of initiative and sales.

Internet activity. Encouraging customers to use this lane that results in significantly lower costs as compared with the cost of identical services provided at the branches.

Internet loans. Private customers who comply with determined criteria, may apply for loans via the Internet.

Discount by cellular. A service based on cellular application enabling Internet access to the account, obtaining information and executing bank transactions by means of SMS/application at any place and at any time. Various services are provided to the customer, including obtaining support while surfing on the web.

Providing services to State employees and to teaching staff. In 2013, the Bank continued providing unique services to State employees and to teaching staff, in accordance with agreements signed with the Accountant General. A tender had recently been published for the rendering of services to educational staff, in which another bank was successful. A tender with respect to State employees is expected to be published during the course of 2014. (For additional details, including the continued provision of services to teaching staff, see Note 19 C 17 and 18).

ADJUSTMENT OF BRANCH LAYOUT

A change in 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.

Conversion of branches to business branches. In 2012, a move began to convert certain branches into business branches. Accordingly, the Bay Branch in Haifa and the Poleg Branch in Nataniyah were converted in 2012. In 2013, the Canfei Nesharim Branch in Jerusalem was converted.

"Discount Your Way". These branches, located in shopping malls, serve as service and sales points to customers of these malls, and are tailored to the retail environment of the malls. Opening hours are adapted to customers’ needs and convenience: 10:00 - 22:00. Nine "Discount Your Way" branches operated at the end of 2013.

"Household Discount". Most of the "Household Discount" branches were converted during 2013 into conventional branches. The "Household Discount" branches were initially designed to provide services to private customers only. Customer needs and the changing demographical environment led to an expansion of services provided by these branches, including services to business customers.

Vacating Yahav Bank branches from Government premises. The 2010 annual report (p. 136) stated that in June 2010 the Jerusalem District Attorney's Office (civil cases) submitted to the Jerusalem Magistrate's Court a claim brief submitted in summary procedure for the eviction of the Yahav Bank branches located at Government office premises in the Capital (Ministry of Interior and Sheikh Jarrah). The mediation process conducted between the parties has failed. The legal proceedings between the parties continue in their course.

CONSULTING LAYOUT

Investment centers. Customers having deposits of over NIS 750 thousand or customers active in the capital market are entitled to consultancy services regarding their funds at nine investment centers. The account of the customer is managed at the branch, however the service is provided at the investment centers by expert investment consultants.
4 investment centers extensions were in operation at the end of 2013.
The services provided by the investment centers are to be enlarged in the course of 2014, from providing investment advisory services only, to providing banking services that include: credit, mortgage consulting and pension consulting.
(only for VIP customers attended to by the investment centers of the Household Segment).
Consulting services in Bank branches. Customers with deposits in the range of NIS 120-750 thousand are entitled to advisory services provided at the branches by authorized investment consultants that specialize in the capital market.
The services provided by the investment centers are to be enlarged in the course of 2014, from providing investment advisory services only, to providing banking services that include: credit, mortgage consulting and pension consulting.
Pension advisory services. The Bank provides pension advisory services at the Bank's branches and investment centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self employed and salaried employees all over the country. (For further details see hereunder "Capital market activities" in the Chapter "Further details regarding the activity in certain products").
Portfolio management. Directing customers to outside and inhouse portfolio managers.

MARKETING AND DISTRIBUTION

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:

- At the branches - frontal activity through screens located in areas where customers await service;
- Through the telephone either by way of an initiated approach to the customer or in response to an approach by the customer;
- By Discount TeleBank - either by way of an initiated approach to the customer or in response to an approach by the customer;
- At the Discount website on the Internet, which provides marketing messages and marketing offers;
- Through the Discount automatic teller machine, by which marketing messages and marketing suggestions are being communicated;
- In the interactive voice response (IVR) system in the "Telebank", by means of marketing messages and marketing suggestions while the customer is waiting for service;
- Direct mailing to customers (to which is attached a statement of account) and through the automatic service machines (ATM and Information Desk).
- Direct lanes – a service that allows the possibility of receiving a loan through the Internet.

TARGETS AND BUSINESS STRATEGY

2013. Three goals were set for the segment, in focusing the activity in 2013: focusing on profitability, growing the customer base and the volume of activity at the bank and enhancing quality.
To achieve the aforesaid goals, the following are to be emphasized:

- **Positioning "Telebank" as a nationwide service and sales center** – initiating general banking calls and integrating "value" offers and sales into incoming calls, along with providing a voice response service to subscribers and customers, the referral of personal and general calls and the activation of retention centers for VIP customers and students;

- **Fulfilling customer potential** – by means of secondary segmentation, including adapting “value” offers surrounding “Discount Family”, products and prices, offering loans through a variety of lanes, improving the activation of the promotional personnel - “Telebank” and tellers encouraging family savings;
- **Customer retention using mortgages as a retentive product** – improving customer service, primarily by shortening schedules; expanding the service spread, including greater activity with purchasing groups, providing “value” offers in association with mortgages.
- **Improving quality:**
  - Developing private and business credit models;
  - Continuing to deploy compliance officers in the branches;
  - Focused management of control-monitoring-collection, including significantly improving response time.
- **Customer retention** – A center for the retention of VIP customers was established at the end of 2012, which is to be expanded in 2014 to handle personally customers of this segment.

The year 2014. Intensifying operations in the Household Segment – an increase in the number of customers, while focusing on reducing the number of customers whishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit.

POINTS OF EMPHASIS FOR THE COMING YEAR

- Continued leadership in personal service;
- Strengthening the focus on the customer;
- Development of new and unique products and customizing them to customer needs;
- The continued attraction of State employees and teachers as customers;
- The continued positioning of the Bank as a leader in the pension consulting field;
- Emphasis on the preservation and fostering of customer loyalty and intensifying operations with new and existing customers;
- Intensifying operations on the liabilities side;
- Shortening banking processes;
- The integration of processes for the removal of operational activities from the branches, such as the renewal of insurance policies for assets serving as collateral;
- Continued installation of the line management system;
- Multi-lane banking that would allow the customer to perform banking operations through any lane of his choice;
- Increased customer satisfaction by upgrading the service experience at the branch and raising the bar for service quality;
- The continued development and use of analytical models as a tool supporting decision making in the granting of credit;
- Continued operation of "Discount Family".

COMPETITION

Competitors. The number of competitors in the household segment is the same as the number of banks operating in the market. The Bank’s principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank. Israel Discount Bank is third in size amongst the five banks. Furthermore, competition has arisen in recent year from "off banking" financial entities, e.g. credit card companies, have entered the competitive market in recent years with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions.

Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers focusing on differentiation and attracting customers by means of "Discount Family", focusing on the public sector workers and by means of the branch layout;
- Preservation of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting and credit;
- Discount Bank was the first bank to extend the range of branches within the framework of improving the service and to launch unique concept branches. The activity includes over 100 branches, which are also open for customer service on Fridays.

In addition, as stated, the Bank focuses on implementing the segment strategy by specialization in the various fields and providing specialized service according to population segments and their needs.

DEVELOPMENT IN THE SEGMENT'S MARKETS AND CHANGES IN CUSTOMER CHARACTERISTICS

No material changes occurred in 2013 in the characteristics of customers in this segment. At the same time, the trend of increasing banking operations through the direct lanes continues. (ATM, Discount Telebank, the Internet and cellular banking).

CRITICAL SUCCESS FACTORS IN THE SEGMENT

- Matching the disposition of service points and hours of operation to the area and type of population;
- Expansion of exposure and access to direct technological lanes;
- Providing service and professional response to the customer compatible with his needs and preferences;
- The structuring of customer adapted products in the various banking lanes;
- Flexibility and sensitivity to market changes, including regulatory requirements.

PRINCIPAL SEGMENT ENTRY AND EXIT BARRIERS

- Investment in branches layout all over the country;
- Investment in the establishment of advanced technological means, and in their maintenance and upgrading;
- Training of skilled service personnel engaged in providing a variety of banking products and activity;
- Maintaining the reputable service level, leadership, professionalism and reliability established over many years.
- Inputs and efforts for the preserving of existing customers and attracting new customers.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

General. Most of the income from credit card issue operations is related to the household segment.

The segment's loss in 2013 amounted to NIS 20 million, compared to a net income of an amount of NIS 224 million in 2012. The decline in profits of the segment derived from the low interest environment, which adversely affected the income of the segment from deposits by a material amount of NIS 181 million, from the rise in expenses for credit losses in an amount of NIS 28 million, and from the rise in operating expenses in the amount of NIS 164 million, mainly the result of the increase in payroll expenses.

The credit loss expenses in this segment amounted to NIS 48 million in 2013, compared to NIS 19 million in 2012, an increase of 152.6%.

Following are the 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
	For the year ended December 31, 2013						
	in NIS millions						
Interest income, net							
- From external sources	(41)	259	-	887	1,105	(1)-	1,105
- Intersegmental	952	(30)	-	(759)	163	(1)-	163
Total Interest income, net	911	229	-	128	1,268	(1)-	1,268
Non-interest financing income	2	8	5	-	15	(1)-	15
Commissions and Other income	454	804	225	37	1,520	(1)-	1,520
Total Income	**1,367**	**1,041**	**230**	**165**	**2,803**	**(1)-**	**2,803**
Credit loss expenses	(4)	21	-	31	48	(1)-	48
Operating and other expenses	1,616	813	205	130	2,764	(1)-	2,764
Profit (loss) before taxes	(245)	207	25	4	(9)	(1)-	(9)
Provision for taxes (tax savings) on profit	(87)	70	9	1	(7)	(1)-	(7)
Net Income (loss) Attributed to the Bank's shareholders	**(158)**	**119**	**16**	**3**	**(20)**	**(1)-**	**(20)**
Return on equity (percentage)	(22.2)	18.0	54.1	0.4	(0.9)	-	(0.9)
Average Assets	8,987	8,235	-	20,015	37,237	26	37,263
Of which - Average credit to the public	8,987	8,235	-	20,015	37,237	26	37,263
Average Liabilities	66,162	2,422	-	27	68,611	50	68,661
Of which - Average deposits from the public	66,162	-	-	27	66,189	50	66,239
Average Risk-assets	8,936	8,261	376	9,907	27,480	20	27,500
Average securities	-	-	38,167	-	38,167	(1)-	38,167
Average other assets under management	1,302	-	2,048	1,045	4,395	(1)-	4,395
Components of Interest income, net:							
Margin from credit activity	467	229	-	127	823	(1)-	823
Margin from deposits activity	444	-	-	1	445	(1)-	445
Total Interest income, net	**911**	**229**	**-**	**128**	**1,268**	**(1)-**	**1,268**

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

Following are the 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
	For the year ended December 31, 2012						
	in NIS millions						
Interest income, net							
- From external sources	(255)	265	-	227	237	(2)-	237
- Intersegmental	1,336	(35)	-	(96)	1,205	(2)-	1,205
Total Interest income, net	(3)1,081	230	-	(3)131	1,442	(2)-	1,442
Non-interest financing income	1	10	7	9	27	(2)-	27
Commissions and Other income	482	753	224	38	1,497	(2)-	1,497
Total Income	**1,564**	**993**	**231**	**178**	**2,966**	**(2)-**	**2,966**
Credit loss expenses	(4)	23	-	-	19	(2)-	19
Operating and other expenses	1,540	752	174	134	2,600	(2)-	2,600
Profit before taxes	28	218	57	44	347	(2)-	347
Provision for taxes (tax savings) on profit	(3)(10)	67	14	(3)17	88	(2)-	88
Net Income Attributed to the Bank's shareholders	**38**	**116**	**43**	**27**	**224**	**(2)-**	**224**
Return on equity (percentage)	5.0	19.4	139.3	3.8	10.7	19.7	10.7
Average Assets	(1)9,358	8,284	-	(1)19,615	37,257	13	37,270
Of which - Average credit to the public	9,358	8,284	-	19,615	37,257	13	37,270
Average Liabilities	66,046	2,137	-	492	68,675	17	68,692
Of which - Average deposits from the public	66,046	-	-	492	66,538	17	66,555
Average Risk-assets	(1)9,999	8,026	410	(1)9,584	28,019	13	28,032
Average securities	-	-	34,065	-	34,065	(2)-	34,065
Average other assets under management	1,609	-	1,576	1,074	4,259	(2)-	4,259
Components of Interest income, net:							
Margin from credit activity	(3)453	230	-	(3)131	814	(2)-	814
Margin from deposits activity	628	-	-	-	628	(2)-	628
Total Interest income, net	**1,081**	**230**	**-**	**131**	**1,442**	**(2)-**	**1,442**

Footnotes:

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

(2) Amounts lower than NIS 1 million.

(3) 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.

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 or to limit their amounts prohibiting the charge of management commission on securities investment accounts, and 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 35 to the financial statements.

For details regarding the draft instruction in the matter of "Customer benefits", see "Legislation and Supervision" below.

THE RETAIL SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

Most of the customers of MDB belonging to the household segment of this bank, receive banking services by means of the MDB branches organizationally belonging to the Acco and Nazareth regions (31 branches). Such branches are located in areas where the population has an absolute "non-Jewish" majority. MDB management believes that most of the customers belonging to such populations receive services from Bank Leumi and Bank Hapoalim, while the balance of the activity is divided among the remaining banks.

MDB views the retail segment as a central target of its business development and is diligently working on broadening the branch layout in the segment as well as improving the service to its customers. During the year 2013, Mercantile Discount Bank opened one branch in an area having potential for providing banking services to customers belonging to this segment.

RETAIL BANKING - SMALL BUSINESSES SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF SEGMENT

Net income of the segment in 2013 amounted to NIS 202 million, compared with NIS 263 million in 2012, a decrease of 23.2%. 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 amounted to NIS 94 million in 2013, compared to NIS 98 million in 2012, a decrease of 4.1%.

Following are the 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
	For the year ended December 31, 2013					
	in NIS millions					
Interest income, net						
- From external sources	626	27	-	50	43	746
- Intersegmental	33	(8)	-	(4)	(24)	(3)
Total Interest income, net	659	19	-	46	19	743
Non-interest financing income	-	-	3	-	-	3
Commissions and Other income	376	42	41	22	1	482
Total Income	**1,035**	**61**	**44**	**68**	**20**	**1,228**
Credit loss expenses	98	2	-	4	(10)	94
Operating and other expenses	707	45	42	10	11	815
Profit before taxes	230	14	2	54	19	319
Provision for taxes on profit	81	3		20	7	111
Net Income Attributed to the Bank's shareholders	**149**	**5**	**2**	**34**	**12**	**202**
Return on equity (percentage)	20.2	6.9	28.4	48.7	19.4	21.4
Average Assets	10,374	358	-	935	738	12,405
Of which - Average credit to the public	10,374	358	-	935	738	12,405
Average Liabilities	15,464	754	-	740	3	16,961
Of which - Average deposits from the public	15,464	-	-	740	3	16,207
Average Risk-assets	9,216	836	74	880	795	11,801
Average securities	-	-	8,463	-	-	8,463
Average other assets under management	-	-	407	-	-	407
Components of Interest income, net:						
Margin from credit activity	565	19	-	40	19	643
Margin from deposits activity	94	-	-	6	-	100
Total Interest income, net	**659**	**19**	**-**	**46**	**19**	**743**

Following are the 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
	For the year ended December 31, 2012					
	in NIS millions					
Interest income, net						
- From external sources	624	32	-	48	47	751
- Intersegmental	60	(10)	-	(5)	(19)	26
Total Interest income, net	684	22	-	43	28	777
Non-interest financing income	-	-	3	-	3	6
Commissions and Other income	363	72	36	19	2	492
Total Income	**1,047**	**94**	**39**	**62**	**33**	**1,275**
Credit loss expenses	104	-	1	(1)	(6)	98
Operating and other expenses	675	50	34	10	8	777
Profit before taxes	268	44	4	53	31	400
Provision for taxes on profit	88	9	1	19	11	128
Net Income Attributed to the Bank's shareholders	**180**	**26**	**3**	**34**	**20**	**263**
Return on equity (percentage)	26.1	39.3	65.2	57.5	27.1	29.5
Average Assets	(1)10,039	408	-	802	1,123	12,372
Of which - Average credit to the public	10,039	408	-	802	1,123	12,372
Average Liabilities	14,518	882	-	671	14	16,085
Of which - Average deposits from the public	14,518	-	-	671	14	15,203
Average Risk-assets	(1)9,127	899	71	792	963	11,852
Average securities	-	-	7,088	-	-	7,088
Average other assets under management	-	-	344	-	-	344
Components of Interest income, net:						
Margin from credit activity	556	22	-	37	28	643
Margin from deposits activity	128	-	-	6	-	134
Total Interest income, net	**684**	**22**	**-**	**43**	**28**	**777**

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

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 35 to the financial statements.

DEVELOPMENTS IN 2013

Financing of small businesses. As part of the Bank's policy of focusing on operations in this segment, existing customers of the Bank are being offered two financing lanes, while two additional lanes are being offered to new customers. This, in the framework of four funds for the financing of small businesses. The total financing per customer offered by the fund, may reach NIS 1 million, including reduced collateral requirements. Operations in this field were enlarged in 2013, and the Bank granted finance of this type to hundreds of small businesses in geographical and sectorial distribution.

Business dealing room. During 2013, the Bank conducted a focused activity for connecting business customers, both small and medium, to the commercial dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions.

Business credit card. In the middle of 2013, the Bank launched a "business key" credit card. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.

Classifying branches as business branches. With the aim of focusing operations and improving service, six branches were classified at the Bank as business branches offering service only to customers of the small and medium business segment and to VIP customers. These branches undergo structural modifications of the premises for service of business customers.

POINTS OF EMPHASIS FOR THE COMING YEAR

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers whishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Customizing the sale of unique products to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Development of a rating model for business customers and the use thereof as a tool supporting credit granting decisions;
- Expansion of the use of direct channels, with a focus on the designated website for customers of this segment – "Business +";
- Increasing the use of models analyzing the activity of the segment's customers (the "red lights" system);
- Increasing the advertising in the small businesses field, both on the Bank`s website and facebook page and in the media and in customer conferences.

COMPETITION

The existing competition in this segment is mainly in the banking sector. Nevertheless, financing services for small business customers are also provided by credit card companies as well as by designated private companies financing specific operations, such as: the purchase of vehicles, equipment or import activity. The Bank's principal methods to cope with competition include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

SERVICE TO SEGMENT CUSTOMERS

The small business segment provides the full variety of services to the segments' customers. Service is provided at the Bank branches, except for foreign trade services. Customers also have the option of receiving service through a designated Internet site as well as by telephone.

Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").

Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to NIS 15 million and indebtedness of up to NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.

"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.

SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.

THE SMALL BUSINESS SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

The small business segment at the MDB is one of the outstanding segments of this bank and accordingly is a central target in its business development.

Around one half of the customers of MDB who belong to this segment live in areas where the population has an absolute "non-Jewish" majority and receive banking services by means of 31 branches of this bank belonging organizationally to the Acre and Nazareth regions. MDB management believes that most of the customers belonging to such populations receive their services from Bank Leumi and Bank Hapoalim, while the balance of the activity is divided among the remaining banks.

During the year 2013, Mercantile Discount Bank opened one branch in an area having potential for providing banking services to customers belonging to this segment.

CORPORATE BANKING SEGMENT

REVIEW OF DEVELOPMENTS IN THE CORPORATE BANKING SEGMENT IN 2013

The Israeli economy expanded in 2013 by 3.3%, compared to a growth of 3.4% in 2012. About 0.9% of the growth in 2013, resulted from the savings in the import of fuel (following the commencement of natural gas production from the Tamar field), which in fact reflects a significant slowdown compared with 2012. The business product expanded by 3.5% (3.4% in 2012), though, as stated, about 1% of the growth resulted from the commencement of gas production.

Following are the factors which affected the development of the business product in 2013:

- A moderate growth (0.7%) in exports, reflecting regression of 2.0% in the export of goods and on the other hand, an increase of 6.1% in the export of services.
- Accelerated private consumption from 3.2% in 2012 to 3.7% in 2013. In particular, a steep increase of 8.5% was recorded in the consumption of personal transportation means.
- A slowdown in investments in fixed assets (excluding ships and aircrafts) from 3.2% to 0.8%. The said slowdown applied both to investments in economic sectors and in housing construction.
- Public consumption (excluding defense imports) expanded in 2013 by 3.1% (2.8% in 2012). It should be noted that in 2013 consumption for civil purposes recorded a slowdown, and on the other hand, an increase was recorded in purchases from the local defense industries (following a regression in 2012).

Concurrently with a weakness in most of application components, a moderate regression (0.4%) was recorded in 2013 in the import of goods and services (excluding defense imports). The said standstill reflected a regression in the import of services and a moderate growth in the import of goods.

DEVELOPMENTS IN THE DEBT OF THE CORPORATE BANKING SEGMENT

Stability in the debt of the business sector (excluding banks and insurance companies) was recorded during the fourth quarter of 2013, following a decline of 2% during the first three quarters of the year (the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI). The last quarter has been characterized by a halt in the decline of the debt to banks and by an accelerated growth of the debt to institutional bodies through loans. The outstanding balance of the debt as of the end of 2013 was NIS 779 billion, as compared with NIS 795 billion at the end of 2012, a decrease of 2%.

The decrease in the debt during the year reflects a decrease of 3% in the debt to banks, a decrease of 1% in the debt to institutional bodies, and on the other hand, a growth of 9% in the debt to households and corporations (marketable corporate bonds). In particular should be mentioned that the debt to institutional bodies reflected a decline of 10% in bonds, which was largely offset by a growth of 31% in loans.

According to the Bank of Israel assessments in quantitative terms (with the elimination of the effect of inflation and changes in exchange rates), a growth of 0.4% was recorded during 2013 in the total debt of the business sector. The said growth reflected a rise of 4.9% in credit from abroad and a rise of 3.2% in loans of institutional bodies to the business sector (including nonmarketable bonds). On the other hand, a decrease of 1.7% was recorded in bank credit.

The weight of the banks in the total debt of the business sector declined during the year from 50.8% at the end of 2012 to 50.4% at the end of 2013.

DEVELOPMENTS IN SEGMENT MARKETS

The slow expansion in economic activity continued in 2013, on the background of the global economic situation and the uncertainty stemming there from.

Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined economic sector affected by foreign demand. The year 2013 was characterized by the weakening of industrial output and exports. Notwithstanding, the fourth quarter was typified by a halt in the weakening of the output and an improvement in export data. The industry is characterized by export inclined sectors that were adversely affected by the crisis in Europe (a prime export target for Israeli manufacturers);
- Diamonds – A stable activity of this sector in Israel was recorded in 2013 with the supply of increasing demand from the U.S., also on account of a decline in demand in the East Asian markets. An increase at a rate of 4% was recorded in the last quarter of 2013 in receipts of this sector in the banking system, compared with the parallel data last year;
- The services sectors – these sectors are varied sectors and those services exposed to the world crisis have been affected to a higher degree. Furthermore, there are sectors that in recent years are characterized by changes in regulation and increased competition;
- Commercial sector – This sector is being affected mostly, by domestic demand, in respect of which, positive indications exist: private consumption increased during the year at a high rate, the employment market is in a good condition, purchases through use of credit cards continue to grow and revenues of the marketing chains remain stable;
- 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

A certain improvement is anticipated in 2014 in the economic growth rate (excluding the effect of natural gas production). A forecast by the Bank of Israel predicts that the Israeli economy will grow at the rate of 3.3%, compared to 3.5% in 2013. Notwithstanding with the elimination of the effect of the natural gas production, the growth rate will increase from 2.6% in 2013 to 2.9% in 2014.

On the background of the improvement in the global economy and in the forecast of growth in global trade (according to the IMF, global trade is expected to accelerate from less than 3% in 2013 to almost 5% in 2014), an improvement is expected in the industrial exports and investments data.

On the other hand, the private consumption data, which were especially high in the second quarter and third quarter of 2013, are expected to tone down due to the increase in taxes in 2014, and an additional negative effect is possible if long-term interest rates in the U.S. will continue to rise and to affect Israel.

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

EXPECTED DEVELOPMENTS IN CREDIT TO THE CORPORATE BANKING SEGMENT

Banking credit. The continued stagnation trend is expected in this sector in view of the need to attain the capital requirements goals and reduce concentration risks and in view of the:

- increasing competition on the part of institutional bodies;
- decline in demand for business credit;
- continued moderate economic growth, alongside a weakness in the industrial sectors.

Off-banking credit. The off-banking credit is expected to grow, due mostly to an accelerated growth of the nonmarketable 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.

REACHING TARGETS AND BUSINESS STRATEGY - 2013

In the course of 2013 the Bank operated in accordance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, reducing exposure to foreign operations and reducing the concentration risk (to borrower groups and large borrowers), with the aim of improving the credit portfolio. In addition, measures required to attain the desired portfolio structure and the business targets, were taken. As a result of the above, and in view of the decline in the demand for credit on the part of large corporations, the volume of the credit portfolio to the corporate banking segment has declined.

The Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

TARGETS AND BUSINESS STRATEGY

In 2014, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, whilst allocating risk assets according to risk adjusted return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.

Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2014:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Improvement of the credit portfolio, with a focus on underwriting and credit management procedures, collection procedures and the maintenance of professional ability for improvement of the credit skills;
- reducing credit exposure to "vulnerable areas" in the credit portfolio and adjustment of the yield to the risk;
- Widening the array of services to customers while increasing the risk adjusted return;
- Forming a return on equity adjusted pricing possibility;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;

- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (populations, targets, products, geography);
- Focusing on operations having an administrative infrastructure, a proper automation infrastructure, manpower, monitoring and control;
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror;
- Participation in the financing of large merger and acquisition transactions;
- Leading syndication transactions with institutional bodies.

The above said 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, as discussed above in this Section and in "Main developments in Israel and around the world in 2013". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

The Bank operates within the framework of laws, regulations and regulatory directives applicable to the banking sector in Israel as promulgated by various supervisory bodies, viz., the Supervisor of Banks, the Commissioner of the Capital Market, Insurance and Savings of the Ministry of Finance, the Antitrust Commissioner, the Israel Securities Authority etc. The principal restrictions applicable to this segment are briefly described hereunder.

Proper Conduct of Banking Business Directive No. 313. As of December 31, 2013 no deviations existed to the limitations as set in the directive.

The limitation on "related parties". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. The indebtedness of each component of the controlling interest shall not exceed the product of multiplying his proportionate share in the controlling interest by 10% of the bank's equity.

In September 2006, the Bank received the Supervisor of Banks' guideline of in this matter, according to which for the purpose of the said Directive, the credit restriction relating to the individuals making up the group will be as follows: Mr. Edgar M. Bronfman - 3.86% of the Bank's equity, Mr. Matthew Bronfman - 0.78% of the Bank's equity, Mr. Adam R. Bronfman - 0.39% of the Bank's equity, Ms. Holly B. Lev - 0.39% of the Bank's equity, Mr. Michael Rubinoff - 0.2% of the Bank's equity, Mr. Philip Milstein - 0.39% of the Bank's equity and Mr. Rubin Schron - 4.0% of the Bank's equity. Following the passing away of the late Mr. Edgar M. Bronfman, the Supervisor of Banks has clarified that the share in the credit limitation of the late Mr. Bronfman will be divided among the heirs mentioned in Appendix 3 to the Addendum to the amended holding permit (see under "Control of the Bank" below).

As of December 31, 2013, there were no deviations from the said limitations. It should be noted that the holding permit states that during the cooling-off period the members of the Bronfman Group and Mr. Schron shall be deemed related parties and controlling shareholders for the purpose of Directive No. 312 (see below "Control of the Bank").

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

Sale of credit portfolios. In 2013, the Bank sold credit portfolios in a total amount of NIS 547 million, compared to NIS 55 million in 2012. A profit of NIS 30 million was recorded in 2013 in respect of the said sales, compared with a loss of NIS 1 million in 2012. For details, see Note 4(c) and Note 24 to the financial statements.

Net income of the segment in 2013 amounted to NIS 278 million, compared with NIS 245 million in 2012, an increase of 13.5%.

The credit loss expenses in this segment amounted to NIS 322 million in 2013, compared to NIS 467 million in 2012, a decrease of 31.0%. Among other things the decline reflects the improvement processes in the credit portfolio, the credit policy of the Bank and the reduction in volume of problematic credit. The decrease in expenses for credit losses derives from the decline in the expense in respect of debts examined on a specific basis alongside a certain increase in the group expense for credit losses.

Following are the 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
	For the year ended December 31, 2013								
	in NIS millions								
Interest income, net									
- From external sources	589	15	-	520	1,124	184	22	206	1,330
- Intersegmental	(42)	-	-	(251)	(293)	(50)	(4)	(54)	(347)
Total Interest income, net	547	15	-	269	831	134	18	152	983
Non-interest financing income	70	-	3	1	74	-	-	-	74
Commissions and Other income	173	34	57	102	366	46	6	52	418
Total Income	**790**	**49**	**60**	**372**	**1,271**	**180**	**24**	**204**	**1,475**
Credit loss expenses	246	3	-	23	272	12	38	50	322
Operating and other expenses	472	24	47	61	604	93	23	116	720
Profit (loss) before taxes	72	22	13	288	395	75	(37)	38	433
Provision for taxes (tax savings) on profit	28	7	4	105	144	14	(8)	6	150
Net Income (loss) Attributed to the Bank's shareholders	**44**	**10**	**9**	**183**	**246**	**61**	**(29)**	**32**	**278**
Return on equity (percentage)	2.1	27.3	95.3	13.7	7.0	11.6	(24.2)	4.9	6.7
Average Assets	21,893	380	27	11,464	33,764	6,012	1,935	7,947	41,711
Of which - Average credit to the public	21,893	380	-	11,464	33,737	6,012	1,935	7,947	41,684
Average Liabilities	18,311	789	3	1,989	21,092	1,860	313	2,173	23,265
Of which - Average deposits from the public	18,311	-	-	1,989	20,300	1,860	313	2,173	22,473
Average Risk-assets	26,665	462	117	16,667	43,911	6,487	1,505	7,992	51,903
Average securities	-	-	104,607	-	104,607	-	-	-	104,607
Average other assets under management	-	-	574	-	574	-	-	-	574
Components of Interest income, net:									
Margin from credit activity	513	15	-	262	790	99	12	111	901
Margin from deposits activity	34	-	-	7	41	35	6	41	82
Total Interest income, net	**547**	**15**	**-**	**269**	**831**	**134**	**18**	**152**	**983**

Following are the 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
	For the year ended December 31, 2012								
	in NIS millions								
Interest income, net									
- From external sources	655	18	1	597	1,271	172	10	182	1,453
- Intersegmental	(72)	(1)	-	(314)	(387)	(30)	(4)	(34)	(421)
Total Interest income, net	583	17	1	283	884	142	6	148	1,032
Non-interest financing income	47	-	2	1	50	-	-	-	50
Commissions and Other income	179	56	47	114	396	43	3	46	442
Total Income	**809**	**73**	**50**	**398**	**1,330**	**185**	**9**	**194**	**1,524**
Credit loss expenses	422	-	-	(35)	387	28	52	80	467
Operating and other expenses	431	32	39	69	571	86	18	104	675
Profit (loss) before taxes	(44)	41	11	364	372	71	(61)	10	382
Provision for taxes (tax savings) on profit	(24)	8	3	129	116	25	(14)	11	127
Net Income (loss) Attributed to the Bank's shareholders	**(20)**	**23**	**8**	**235**	**246**	**46**	**(47)**	**(1)**	**245**
Return on equity (percentage)	(1.0)	60.9	102.5	17.0	6.8	10.2	(38.8)	0.0	5.9
Average Assets	[1]26,105	432	[1]29	[1]13,082	39,648	[2]5,527	[2]1,637	7,164	46,812
Of which - Average credit to the public	26,105	432	-	13,082	39,619	5,527	1,637	7,164	46,783
Average Liabilities	22,133	923	1	2,265	25,322	1,905	144	2,049	27,371
Of which - Average deposits from the public	22,133	-	-	2,265	24,398	1,905	144	2,049	26,447
Average Risk-assets	[1]28,654	523	[1]114	[1]18,380	47,671	6,235	1,629	7,864	55,535
Average securities[1]	-	-	90,785	-	90,785	-	-	-	90,785
Average other assets under management	-	-	590	-	590	-	-	-	590
Components of Interest income, net:									
Margin from credit activity	546	17	1	274	838	109	3	112	950
Margin from deposits activity	37	-	-	9	46	33	3	36	82
Total Interest income, net	**583**	**17**	**1**	**283**	**884**	**142**	**6**	**148**	**1,032**

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.

SERVICE TO SEGMENT CUSTOMERS

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.

The financing operations of the large corporations are performed by business managers in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. The teams include a business manager, a business banker, economists and credit coordinators. Such teams serve as the banking address for all the financial needs of the corporate customer.

The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities.

An extension of the Jerusalem Main Branch was opened at the end of 2012, located within the premises of the Jerusalem Main Branch. Furthermore, an additional extension was opened in Haifa in the middle of 2013.

The Capital Market Department. The aim of the department is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The department engages in the allotment of credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.

Customers engaged in international trade are being served by the foreign trade department (for additional details, see below).

The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.

Some of the segment’s customers utilize the services of the Bank’s trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

FOREIGN TRADE OPERATIONS

General. The foreign trade department operates within the framework of the Bank’s Corporate Division, and offers a range of services to customers from the various business segments engaged in international trade.

Scale of operations. According to data issued by the Central Bureau of Statistics, the import of goods in 2013, amounted to US$71.0 billion, a decrease of 1.8% compared with 2012. Export of goods amounted to US$56.7 billion, an increase of 5.0% compared with 2012. (These data include aircraft, ships, diamonds and energy materials). The prominent trend in 2013 is for a decrease of 26.9% in the goods trade deficit. This, following an increase of 25% in this deficit in 2012.

According to the trend data in the last quarter of 2013, the import of goods shows an increase of 15.0% and an increase of 20.0% in the export of goods (excluding aircraft, ships, diamonds and energy materials).

The business activity of the foreign trade department coordinates in each department all the services in the foreign trade field that the customer requires (import, export, finance, financial instruments, etc.). The personal and direct relations with the customer are particularly emphasized alongside the current communication of the customer with his business manager at the Bank, with the view of intensifying the activity with customers.

In 2013 the Bank continued expanding its business development activities in accordance with the devised plan, and an initiated activity for the identification of potential customers was carried out. Concurrently, activity with existing customers was intensified, while providing customers with a professional and personal service.

Technological improvements. The year 2013 was characterized by the success of the marketing efforts in increasing the pool of customers using foreign trade services on the Internet. The Internet system allows customers to make direct payments for imports, to open import documentary credits and to make payments in respect of import documents for collection.

CHANGES IN CUSTOMER CHARACTERIZATION

The large customers and the large borrower groups in the economy form a substantial part of the Bank’s corporate customer portfolio.

The commercial credit portfolio includes exposure to holding companies, the credit that had been granted to serve to finance domestic or foreign operations. The risk profile of these companies at market level, increased in the recent year, when several of the major holding companies were unable to honor their liabilities and were forced to reach a debt arrangement with the holders of bonds issued by them (the same doubt exists with respect to other companies, which is reflected in the level of return on their bonds).

Following the growth in the risk profile of holding companies active on the domestic and or overseas markets, the Bank reduced the credit granted to them by way of transferring the credit to their operational subsidiaries, transfer to credit in amortization backing-up the loan by reasonable local collateral, and avoiding the granting of credit to companies mostly operating abroad.

TECHNOLOGICAL CHANGES THAT MAY HAVE A MATERIAL IMPACT ON THE SEGMENT

The corporate banking segment is engaged currently in updating and upgrading its information systems that are utilized to analyze and to measure various risks (mainly credit risks) to monitor and to control customer activity in "real time".

CRITICAL SUCCESS FACTORS IN THE SEGMENT

- Committed and long-term customer relationships, quality service, prompt response to credit requests and to the overall related services (foreign trade operations, security investment, derivative financial instruments, banking services to corporate executives and owners, etc.);
- An ability to support and stand by the customer also in periods of slowdown and economic crisis;
- Efficient management of the credit portfolio from the aspects of measurement, costing and sophisticated risk management "in real time", while maintaining proper credit control systems for identifying and minimizing risks while taking into account the overall indebtedness of the customer, including in the off-banking market;
- The professional training of quality and proficient human resource;
- Improvement of the technical ability to provide services;
- Relations with large banks in Israel and abroad.

ENTRY AND EXIT BARRIERS OF THE SEGMENT

Customers of the segment transact business concurrently with several other banks, so that the relative advantage of the segment is based upon long-term relationships with the customers, including continued satisfaction with the quality of service and providing prompt and suitable solutions to complex financing needs and support to customers during deterioration in the economic condition. A large number of large corporations have adopted a leverage policy which includes the use of bank financing resources together with use of off-banking means of finance.

Entry and exit barriers may arise as a result of the need for the appropriate allocation of capital and compliance with regulatory limitations of the Bank of Israel, which impact the manner and volume of activity vis-à-vis borrowers and groups of borrowers.

The long-term resources available to the Bank for credit financing are limited in relation to the short and mid term resources. Accordingly, cooperation with institutional investors is required for financing long-term projects in the income generating real-estate and infrastructure fields and/or by way of the sale of a part of the long-term bank credit.

SUBSTITUTES FOR PRODUCTS AND SERVICES OF THE SEGMENT AND CHANGES THEREIN

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities.

In situations of expanding business activity and improvement in business performance of companies operating in the local and

foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.
Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

COMPETITION IN THE SEGMENT AND CHANGES THEREIN

The business segment is exposed to competition from the other four large banking groups as well as from foreign banks that operate in Israel (HSBC, Citigroup).
A decline in the demand for business credit was felt during the past year, as well as a decline is being noticed in the offer of credit to groups of borrowers and to holding companies.

MARKETING AND DISTRIBUTION

Activity of the corporate banking segment in marketing credit and related services to existing and new customers is implemented principally by business managers engaged in the adaptation of financing solutions to the various transactions, and analysis of comprehensive banking needs of customers and in appropriate adaptation of the Bank’s products to these customers’ needs and requirements, as well as in the "real-time" provision of such services.
The Bank’s products are also marketed and distributed relative to owners, executives and employees of the corporations.
The activity of the segment with capital market customers is performed by the capital market department, engaged in the marketing of credit and related services to existing and new customers, which include operations, investment consulting and brokerage.

DEALING WITH COMPETITION

The high level of competition in the segment is reflected in the quality and sophistication of the service, prompt reaction and the cost of credit and commissions, which are proximately similar to the mix offered by the competitors. The segment’s main tools in facing competition include the provision of personal, professional and quality service and the establishment of a long-term relationship with customers, while acquiring an overall understanding of their financial needs.
The recent crisis increased the awareness of the corporate customer to the fact that it is beneficial for him to transact business with more than one bank, in view of the desire and necessity not to be dependent on financing facilities of only one bank. This increased awareness is advantageous to the Bank when attracting new customers.

PRODUCTS AND SERVICES

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.
In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

MIDDLE MARKET BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in 2013 amounted to NIS 170 million, compared with NIS 174 million in 2012, an increase of 2.3%.

The credit loss expenses amounted to NIS 123 million in 2013, compared to NIS 127 million in 2012, a decrease of 3.15%.

Following are the 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
	For the year ended December 31, 2013									
	in NIS millions									
Interest income, net										
- From external sources	324	4	-	129	10	467	146	121	267	734
- Intersegmental	(85)	-	-	(29)	(2)	(116)	(41)	(27)	(68)	(184)
Total Interest income, net	239	4	-	100	8	351	105	94	199	550
Non-interest financing income	15	-	-	-	-	15	-	-	-	15
Commissions and Other income	92	9	10	32	-	143	23	24	47	190
Total Income	**346**	**13**	**10**	**132**	**8**	**509**	**128**	**118**	**246**	**755**
Credit loss expenses	101	1	-	(9)	(3)	90	19	14	33	123
Operating and other expenses	213	7	9	30	2	261	71	56	127	388
Profit before taxes	32	5	1	111	9	158	38	48	86	244
Provision for taxes on profit	11	1	1	40	3	56	6	11	17	73
Net Income Attributed to the Bank's shareholders	**21**	**3**	**-**	**71**	**6**	**101**	**32**	**37**	**69**	**170**
Return on equity (percentage)	3.4	15.0	-	20.6	16.5	10.0	9.6	9.1	9.3	9.7
Average Assets	7,075	100	-	3,444	347	10,966	4,182	3,883	8,065	19,031
Of which - Average credit to the public	7,075	100	-	3,444	347	10,966	4,182	3,883	8,065	19,031
Average Liabilities	6,752	210	-	877	1	7,840	1,357	921	2,278	10,118
Of which - Average deposits from the public	6,752	-	-	877	1	7,630	1,357	921	2,278	9,908
Average Risk-assets	7,496	222	17	4,232	454	12,421	4,330	5,136	9,466	21,887
Average securities	-	-	8,896	-	-	8,896	-	-	-	8,896
Average other assets under management	932	-	240	-	-	1,172	-	-	-	1,172
Components of Interest income, net:										
Margin from credit activity	221	4	-	94	8	327	77	75	152	479
Margin from deposits activity	18	-	-	6	-	24	28	19	47	71
Total Interest income, net	**239**	**4**	**-**	**100**	**8**	**351**	**105**	**94**	**199**	**550**

Following are the principal data relating to the operations of the middle market banking segment (continued):

	Domestic operations						International operations			
	Banking and finance[1]	Credit cards	Capital market	Construction and real estate	Mortgages	Total	Banking and finance	Construction and real estate	Total	Total
	For the year ended December 31, 2012									
	in NIS millions									
Interest income, net										
- From external sources	316	5	-	117	5	443	208	124	332	775
- Intersegmental	(73)	-	-	(17)	(3)	(93)	(51)	(25)	(76)	(169)
Total Interest income, net	243	5	-	100	2	350	157	99	256	606
Non-interest financing income	14	-	-	-	-	14	-	-	-	14
Commissions and Other income	89	16	10	27	-	142	29	14	43	185
Total Income	**346**	**21**	**10**	**127**	**2**	**506**	**186**	**113**	**299**	**805**
Credit loss expenses	41	-	-	13	-	54	60	13	73	127
Operating and other expenses	208	10	8	33	1	260	108	48	156	416
Profit before taxes	97	11	2	81	1	192	18	52	70	262
Provision for taxes on profit	32	2	1	28	-	63	4	19	23	86
Net Income Attributed to the Bank's shareholders	**65**	**7**	**1**	**53**	**1**	**127**	**14**	**33**	**47**	**174**
Return on equity (percentage)	11.1	36.9	116.8	16.7	3.4	13.4	3.2	10.4	6.2	10.2
Average Assets	7,460	114	(1)-	(1)3,139	318	11,031	(2)5,577	(2)3,441	9,018	20,049
Of which - Average credit to the public	7,460	114	-	3,139	318	11,031	5,577	3,441	9,018	20,049
Average Liabilities	6,338	246	-	810	-	7,394	1,376	688	2,064	9,458
Of which - Average deposits from the public	6,338	-	-	810	-	7,148	1,376	688	2,064	9,212
Average Risk-assets	7,931	236	19	(1)4,208	301	12,695	5,794	4,214	10,008	22,703
Average securities	-	-	(1)8,678	-	-	8,678	-	-	-	8,678
Average other assets under management	1,846	-	194	-	-	2,040	-	-	-	2,040
Components of Interest income, net:	-	-	-	-	-	-	-	-	-	-
Margin from credit activity	221	5	-	94	2	322	122	83	205	527
Margin from deposits activity	22	-	-	6	-	28	35	16	51	79
Total Interest income, net	**243**	**5**	**-**	**100**	**2**	**350**	**157**	**99**	**256**	**606**

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.

SERVICE TO SEGMENT CUSTOMERS

The service to the Bank's customers is provided by six business centers countrywide, covering geographically the six regions operated by the Bank: Tel Aviv, Dan, Sharon, Lowlands, Jerusalem and Southern Region and Northern Region. For additional details regarding service to small and medium businesses, see above "Small businesses segment".

The middle market banking segment enjoys professional banking services. Customers are provided with personal, professional and quality service that relates to all their financial needs by offering customized various banking products in credit, exchange-rate hedging, international trade, settlement through the use of credit cards, financing, specialist capital market investments, etc. Concurrently, solutions are also provided for meeting the financial needs of the owners of companies, and their executives and staff, who thus benefit from arrangements that afford them the status of preferred customers.

The products and services are adapted to the business requirements of customers and also include, alongside the varied credit products foreign trade services, risk hedging by way of financial instruments and investment services in various lanes: deposits, securities and the handling of business and private accounts.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists, investment advisors and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. (For further information, see above, "Corporate Banking Segment").

DEVELOPMENTS IN THE SEGMENT'S MARKETS

Customers of this segment are in general companies with an average scale of operations, mostly in the domestic market. A part of the segment's customers conduct also import and export business.

During 2012-2013, economic growth and private consumption recorded a certain slowdown. Concurrently, global economy and in particular the European economy recorded a slowdown (on the background of the debt crisis in the Eurozone), which led to a decline in exports.

DEVELOPMENTS IN THE SEGMENT

Business dealing room. Since the opening in February 2012, of a commercial dealing room providing dealing room activity services to customers of the small business segment and of the middle market banking segment at the Bank, a focused activity is being conducted introducing suitable customers to this dealing room. This dealing room provide purchase and conversion of foreign currency services and performing hedge transactions.

TARGETS AND POINTS OF EMPHASIS FOR 2014

- In view of forecasts indicating the slowdown of economic conditions, conservative credit targets have been determined for the segment and net deposit raising targets in portfolios of new quality customers. The determined targets reflect a moderate growth in the volume of credit for customers of this segment, while focusing on quality customers operating in economic sectors having a reasonable level of risk and fair profitability to the Bank. The Bank will also act towards the preservation of existing quality customers;
- Utilization of the business line in the commercial credit field – focusing on intensification of activity and increasing the profitability of the segment, while endeavoring to increase the activity of segment customers by way of intensifying foreign trade operations, securities operations, transfers and increasing the off-balance sheet activity which requires lesser capital allocation. In addition, the Bank will continue the process of adjusting credit margins to the risk level of customer credit;
- Widening operations with customers active in economic sectors preferred for business growth according to the Bank's policy, among which: focusing on transactions with local authorities and related corporations as against lowering the level of activity in economic sectors having a high risk level;
- The continued improvement of professionalism, availability and credit risk management processes and increasing control and monitoring processes, by way of early identification of customers facing financial difficulties, through a monitoring committee designated for the monitoring of such customers, adding guidelines regarding the granting of credit to the segment and monitoring deviations from established rules, as well as monitoring the development of the credit portfolio and the drawing of conclusions;
- The transition of branches into business branches for the service of the segment and the small business segment, as detailed in the small business segment.

ANTICIPATED DEVELOPMENTS IN THE COMING YEAR

In view of the significant lowering of the growth forecasts in Israel and in the world, a slowdown is expected in the business product and in private consumption alongside a decline in the import of goods and services (excluding defense imports). This situation may have an adverse effect on the business results of industrial and commercial corporations in the market. A slight regression is also anticipated in investments in equipment and machinery. Furthermore, the continuing slowdown is expected in exports (excluding diamonds) which may result in a decline in income and profitability of exporters.
In view of the above, a slowdown is expected in the rate of growth of bank credit to the middle market segment, both as regards applications for credit for the financing of working capital and for the financing of investments. Furthermore, in view of the growing risk level in the market, certain of the companies are expected to face difficulties in raising credit from the banking industry, a situation which will increase their difficulties even more.

CRITICAL SUCCESS FACTORS IN THE SEGMENT

- Ability to identify the needs of the customer and to adjust the banking products to his needs, providing a timely response;
- Ability to provide an overall and comprehensive service to the customer while showing professionalism and using advanced technological means;
- Maintaining an ongoing control layout reducing credit risk at the Bank and their "real time" identification, stressing the compliance issue;
- Determining a credit policy that matches the Bank’s risk concept.

THE SEGMENT'S ENTRY AND EXIT BARRIERS

- Establishment of a branch layout spread out in line with the business potential;
- Training of professional and skilled staff familiar with the variety of products and operations;
- Investment in the development and maintenance of technological means servicing customers and the staff;
- The need to retain capital of a significant volume in granting credit where the risk assets comprise a material component;
- The need for a variety number of products adjusted to customer needs.

PRIVATE BANKING SEGMENT

GENERAL

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter : "private banking customers").
The segment's activity in Israel, for customers managing their accounts at the Bank branches, is conducted through four private banking centers, offering services: in Herzliyah Pituach, in Tel Aviv, in Jerusalem and in Haifa – focusing on Israeli customers; and in Tel Aviv and Jerusalem – focusing on foreign resident customers.
For details regarding the overseas activities of this segment, see below "International activity".

STRATEGIC EMPHASES

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international private banking department, serving foreign resident private banking customers; and the Israeli private banking department, serving Israeli resident private banking customers.

The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to serve foreign residents with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.

The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by a customer relations manager responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.

The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.

In accordance with the credit policy, the private banking centers do not provide credit to customers required for business purposes. Customers interested in obtaining credit for their business activity are referred to the proper service layouts at the Bank.

The private banking layouts will continue to focus on expanding the Israeli and foreign resident customer base and in intensifying activities with them, while focusing on nurturing the continuing generation and maintaining proper risk management in the process of attracting new customers and servicing the existing ones.

As an integral part of the business plan, the Bank focuses on the upgrading of the private banking risk management processes. The risk management unit at the customer assets division continued to intensify its operations during the year in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan. At the end of the training sessions, employees undergo knowledge tests.

DEVELOPMENTS IN THE SEGMENT

In 2013, the Bank continued during the year to intensify the activity of the Israeli and international private banking.

The Israeli private banking field expanded the disposition in Israel in accordance with the work plan, and during the month of June 2013 opened two new service centers in Tel Aviv and Jerusalem, in addition to the existing service centers in Herzliyah-Pituach and in Haifa. The unit focused on attracting new customers, intensifying the activity with existing customers and continuing the attachment of existing Bank customers, who fall within the private banking customer profile. Concurrently, a reorganization process continued to be conducted in the department, which included the transfer of customers not having a private banking profile, to other service layouts at the Bank.

As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. As part of the service concept, focused meetings were held also in this year with customers of the centers, on general subjects and current events, and cultural meetings with the participation of the Bank's senior Management were conducted.

A marketing Internet website designed for private banking customers was launched in 2013. This website reviews the variety of unique services and products offered to customers of this sector.

Activity in the international private banking operations was focused on attracting new customers as well as intensifying operations with existing customers, and in continuation, implementing transfer of customers who do not fall within the private banking profile, to the responsibility of the international banking branches.

As part of a plan for upgrading risk management processes in private banking, a comprehensive project of improving accounts of foreign residents is continued, including the closing of accounts and improvement of documents.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's loss in 2013 amounted to NIS 13 million, compared with a net income in the amount of NIS 23 million in 2012. The loss resulted from the local private banking activity – a transition from a profit of NIS 17 million in 2012 to a loss of NIS 41 million in 2013, principally in the fields of banking and finance.

The credit loss expenses amounted to NIS 4 million in 2013, compared to an expense in the amount of NIS 10 million in 2012.

Following are the 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
	For the year ended December 31, 2013						
	in NIS millions						
Interest income, net							
- From external sources	(133)	-	(133)	91	-	91	(42)
- Intersegmental	221	-	221	141	-	141	362
Total Interest income, net	88	-	88	232	-	232	320
Non-interest financing income		1	1	16	-	16	17
Commissions and Other income	41	44	85	104	57	161	246
Total Income	**129**	**45**	**174**	**352**	**57**	**409**	**583**
Credit loss expenses	1	-	1	3	-	3	4
Operating and other expenses	163	51	214	283	51	334	548
Profit (loss) before taxes	(35)	(6)	(41)	66	6	72	31
Provision for taxes (tax savings) on profit	1	(1)	-	42	2	44	44
Net Income (loss) Attributed to the bank's shareholders	**(36)**	**(5)**	**(41)**	**24**	**4**	**28**	**(13)**
Return on equity (percentage)	(26.5)	(23.3)	(26.4)	8.3	316.7	9.3	(3.0)
Average Assets	1,279	-	1,279	2,869	-	2,869	4,148
Of which - Average credit to the public	1,279	-	1,279	2,136	-	2,136	3,415
Average Liabilities	15,489	-	15,489	17,661	-	17,661	33,150
Of which - Average deposits from the public	15,489	-	15,489	17,661	-	17,661	33,150
Average Risk-assets	2,017	176	2,193	3,169	12	3,181	5,373
Average securities	-	15,425	15,425	-	12,006	12,006	27,431
Average other assets under management	-	307	307	220	-	220	527
Components of Interest income, net:							
Margin from credit activity	27	-	27	39	-	39	66
Margin from deposits activity	61	-	61	193	-	193	254
Total Interest income, net	**88**	**-**	**88**	**232**	**-**	**232**	**320**

Following are the principal data relating to the operations of the private banking segment (continued):

	Domestic operations			International operations			
	Banking and finance[1]	Capital market	Total	Banking and finance	Capital market	Total	Total
	For the year ended December 31, 2012						
	in NIS millions						
Interest income, net							
- From external sources	(211)	-	(211)	181	-	181	(30)
- Intersegmental	341	-	341	72	-	72	413
Total Interest income, net	130	-	130	253	-	253	383
Non-interest financing income	1	1	2	9	-	9	11
Commissions and Other income	34	39	73	102	55	157	230
Total Income	**165**	**40**	**205**	**364**	**55**	**419**	**624**
Credit loss expenses	8	-	8	2	-	2	10
Operating and other expenses	128	43	171	352	51	403	574
Profit (loss) before taxes	29	(3)	26	10	4	14	40
Provision for taxes (tax savings) on profit	10	(1)	9	8	-	8	17
Net Income (loss) Attributed to the bank's shareholders	**19**	**(2)**	**17**	**2**	**4**	**6**	**23**
Return on equity (percentage)	14.9	(15.3)	12.1	0.6	661.6	2.4	6.1
Average Assets	1,421	[1]-	1,421	[2]2,574	-	2,574	3,995
Of which - Average credit to the public	1,421	-	1,421	2,103	-	2,103	3,524
Average Liabilities	15,442	-	15,442	20,031	-	20,031	35,473
Of which - Average deposits from the public	15,442	-	15,442	20,031	-	20,031	35,473
Average Risk-assets	[1]2,142	188	2,330	2,849	-	2,849	5,179
Average securities	-	[1]13,101	13,101	-	12,150	12,150	25,251
Average other assets under management	-	105	105	205	-	205	310
Components of Interest income, net:							
Margin from credit activity	26	-	26	63	-	63	89
Margin from deposits activity	104	-	104	190	-	190	294
Total Interest income, net	**130**	**-**	**130**	**253**	**-**	**253**	**383**

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.

SERVICE TO CUSTOMERS

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them.

Customers of this sector enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.

The Israeli private banking provides service to customers six days per week. Office hours at the private banking centers in Herzliyah and Haifa have been extended, and the centers now operate from 8 AM to 8 PM, in order to provide service at hours convenient to customers.

The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.

In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.

A planning and business development unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.

A product initiation unit acts to create unique products suitable for this segment of customers.

The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

DEVELOPMENT IN THE SEGMENT'S MARKETS AND COMPETITION

The year 2013 was also typified by continued competition in the private banking field, in the field of prices and commissions and in the level of service to customers. Foreign banks continued, also in this year, their marketing efforts to Israeli customers considered customers of high financial wealth, whether by a direct approach from abroad or through their local extensions.

MARKETING AND DISTRIBUTION

The marketing efforts in private banking rely on the referral of customers by the Bank`s other service layouts or by existing customers of private banking. The marketing of products and of the all-round services are being conducted mainly through personal meetings and through small and focused conferences for private banking customers. Furthermore, as preferred customers, private banking customers enjoy the Bank's cultural and artistic activities in cooperation with the Bank's art Curator and the Discount Museum.

FINANCIAL MANAGEMENT SEGMENT

DEALING ROOM

The dealing room is available to customers and to the Bank's branches and provides personal and professional service in the global money and capital markets and in the implementation of special transactions in foreign exchange, interest rates and securities. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. Combining the said areas of operation, allows customers to obtain all commercial services under one station providing a uniform standard of service and of professional level.

The dealing room is engaged in two principal areas of activity:

OVER THE COUNTER (OTC) TRADING – FOREIGN CURRENCY AND INTEREST RATE TRADING

The OTC unit develops and modifies various transactions to customer needs, in particular with respect to hedge and market risk requirements. The unit is a central "market maker" in the dollar/shekel trading; when the dealing room enters into a transaction with a customer, the dealing room becomes the counterparty to the transaction and in respect thereof bears market, credit and operating risks.

The principal transactions which the unit offers customers are: purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives as required by the customer.

TRADING IN SECURITIES

The securities unit is composed of two desks: a foreign securities desk and a local securities desk. The two desks offer customers of the Bank access to the market by a wide range of investment instruments. Following are details regarding the lines of trading operations in securities at the two desks:

Foreign securities. The foreign securities desk is active in a large variety of equity and financial markets worldwide, utilizing complex financial instruments and offering a wide range of instruments: trading in shares on foreign markets, trading in options, in Government bonds and in corporate bonds and debentures, mutual funds and hedge funds, and in arbitration activity.

Brokerage regarding Israeli securities: The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded on the Tel Aviv Stock Exchange. The desk provides brokerage services involving both marketable and non-marketable securities through brokering deals for customers (matching transactions), carries out transactions on behalf of customers (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

ASSETS AND LIABILITY MANAGEMENT (ALM)

The main areas of activity in the management of assets and liabilities are the management of capital, liquidity, exposure to base and interest risks inherent in the balance sheet, management of the available-for-sale securities portfolio, determination of transfer prices and management of the financial spread.

Capital management. The capital management process includes the determination of capital ratio targets, formation of a framework for growth in business activity that will enable reaching the Bank's capital targets, the allocation of the risk asset budget to companies in the Group and to the business units and the monitoring of current operations. Several factors in the Bank and in the Group participate in this process. In addition, the asset and liability management group is responsible for the raising of funds on the capital market.

Liquidity risk management. The liquidity risk management is done by means of an internal model, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of ongoing analysis of trends in the mix and volume of the Bank's deposits and credit. The Bank's Assets and Liabilities Management reviews the liquidity risk at the subsidiary companies, as it is reflected in their internal models.

Short-term liquidity and deposits. The asset and liability management unit operates a liquidity desk dealing with the short-term liquidity of the Bank (up to one month) in Shekel and in foreign currency, through Bank of Israel tenders, deposits and swap transactions. The desk provides interest quotations for deposits of large customers (super jumbo) in foreign and Israeli currency. The desk endeavors to invest the liquidity surplus in every currency and at each point of time.

Linkage base and interest rate exposure management. Evaluating market risk exposure in the Bank's balance sheet is done by means of a designated computer system, which downloads information from all operational systems at the Bank. The asset and liability management committee, headed by the President & CEO, determines the levels of exposure to interest rate risk at the various linkage segments within the framework of limits determined by the Board of Directors regarding the risk appetite.

Transfer prices and management of the marginal financial spread. The Assets and Liabilities Management computes on a daily basis the Bank's internal transfer prices for credit and for deposits. The transfer prices serve as a basis for computing the profitability of all credit and deposit transactions made at the Bank. The prices are updated in accordance with developments in the money and capital markets. The asset and liability management group determines the targets of the marginal spread for deposits and credit and monitors them on an ongoing basis.

Interest tables. The asset and liability management unit is responsible for the production and publication of deposit interest tables.

Development of financial models. The Assets and Liabilities Management is responsible for the maintenance of the models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, exit points, early repayment forecasts for mortgages and more.

"NOSTRO" MANAGEMENT

"Nostro" portfolio management policy – The "Nostro" portfolios of the Bank and of subsidiary companies are mainly used as a central tool for the management of interest rate and linkage base risks, as well as the management of the surplus balances of liquid assets. The portfolios are being managed with an overall view, with the aim of maximizing interest income, subject to limitations determined by the Bank`s Board of Directors and the Boards of the subsidiary companies.

The assets and liabilities management committee is the organ that determines in practice the composition of the portfolio managed by the ALM Unit, subject to overall limitations determined by the Bank`s Board of Directors that mostly takes into consideration interest risks.

The Bank`s "Nostro" Unit is subject to the decisions of its investment committee and to frameworks determined by the Bank`s Board of Directors.

The credit and interest risks related to the investment portfolio of the Group, are being managed through the management of the investment portfolio by the "Nostro" Unit. The investment activity of the subsidiary companies, in particular, IDB New York and MDB, is conducted independently, subject to the risk limitations as determined by the Bank.

GROUP MANAGEMENT

In the capital management field the Bank conducts a well ordered process of capital planning on a Group basis, as well as the formation of a risk asset budget at the subsidiary and Bank segment of operations levels.

In the liquidity risk management field each subsidiary is individually responsible for its own liquidity risk management, on the basis of the methodology approved by the Bank. The Bank allocates liquidity to the subsidiary companies, to the extent required, in accordance with the internal models. The Bank's Assets and Liabilities Management is responsible for establishing liquidity transactions between the Group's companies.

In the market risk management field, the principal subsidiaries (Mercantile Discount Bank and IDB New York) independently manage their market risks, subject to limitations set by the Bank.

In the additional investments field, the principal subsidiaries (Mercantile Discount Bank and IDB New York) independently conduct their investments policy, subject to limitations set by the Bank.

MAIN DEVELOPMENTS IN THE SEGMENT

Sale of operations of Automatic Banking Services Ltd. ("ABS"). The Bank holds 20% in ABS. On February 9, 2014, ABS entered into an agreement for the sale of its ATM operations, in consideration for NIS 46.8 million.

"Nostro" portfolio. For details regarding the Bank's "nostro" portfolio and developments therein, see above "Securities" under "Development of assets and liabilities", Part "A" of the Annex to the Report of the Board of Directors and Note 3 to the financial statements.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment’s income in 2013, not including the activity of the non-financial companies sub-segment, amounted to NIS 161 million, compared to a loss of NIS 179 million in 2012.

Total revenues, excluding non-financial companies segment, amounted in 2013 to NIS 808 million, of which NIS 713 million from domestic activity, compared with NIS 457 million in 2012, of which NIS 298 million from domestic activity, and they include three major components:

1. Profits from the Bank's "Nostro" operations (primarily from financial derivatives) in the amount of NIS 577 million, of which NIS 424 million from earnings on the sale of securities and from adjustments to fair value of trading securities, compared with NIS 413 million "Nostro" earnings in 2012, of which NIS 359 million from gains on sale of securities and from adjustments to the fair value of trading securities.
2. Net gain, from asset and liability management (management of positions and trading and brokerage in currencies and financial derivatives) in the amount of NIS 136 million in 2013, compared with NIS 298 million in 2012.
3. Income from international operations in the amount of NIS 95 million, compared to NIS 159 million in 2012.

Following are the principal data relating to the financial management segment:

	Domestic Operations	International Operations	Total	Domestic Operations	International Operations	Total
	For the year ended December 31					
	2013			2012		
	in NIS millions					
Interest income, net	295	89	384	159	58	217
Non-interest financing income	369	26	395	60	123	183
Commissions and Other income	49	(20)	29	79	(22)	57
Total Income	**713**	**95**	**808**	**298**	**159**	**457**
Credit loss expenses	-	(11)	(11)	(2)	7	5
Operating and other expenses	707	69	776	688	89	777
Net Income (loss) Attributed to the Bank's shareholders	**125**	**36**	**161**	**(195)**	**16**	**(179)**
Return on equity (percentage)	5.7	13.5	6.6	(12.1)	5.2	(9.4)
Average Assets	63,495	20,087	83,582	(1)(2)62,340	(3)19,539	81,879
Average Liabilities	21,691	12,495	34,186	(1)(2)24,767	9,145	33,912
Average Risk-assets	9,747	3,330	13,077	(1)10,574	4,019	14,593

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

COMPETITION

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel (Citibank, Deutsche Bank, HSBC, Barclays), and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

BUSINESS STRATEGY AND TARGETS

The targets set for the segment for the year 2014, comprise mostly the maintenance of an adequate level of profitability, while maintaining a risk level in accordance with the risk appetite of the Bank, despite a low interest environment and a challenging macro-economic environment. The goal of the dealing room is to widen the distribution between income from customers and income from position management, while extending the controls circles.

NON-FINANCIAL COMPANIES SUB-SEGMENT

POLICY REGARDING NON-FINANCIAL INVESTMENTS

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product.
Investments exceeding the determined limit are brought for approval of the Bank`s Board of Directors prior to their execution.

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

The Bank operates within the framework of laws, regulations and regulatory directives applicable to the banking sector in Israel as promulgated by various supervisory bodies, viz., the Supervisor of Banks, the Commissioner of the Capital Market, Insurance and Savings at the Finance Ministry, The Commissioner of the Antitrust Authority, the Securities Authority etc. The principal restrictions applicable to this sub segment are briefly described hereunder.
Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -
(1) Up to fifteen per cent of its capital - in any non-financial corporation;
(2) Up to a further five per cent of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;
(3) Up to a further five per cent of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.
As of December 31, 2013, the Bank was far from reaching the limitation.

SCALE OF OPERATIONS AND NET INCOME OF THE SUB SEGMENT

The sub-segment's net income in 2013 amounted to NIS 96 million, compared with NIS 52 million in 2012, a decrease of 84.6%.

Following are the principal data relating to the non-financial companies sub-segment:

	For the year ended December 31	
	2013	2012
	in NIS millions	
Interest income, net	2	2
Non-interest financing income	113	61
Commissions and Other income	2	2
Total Income	**117**	**65**
Operating and other expenses	7	7
Profit before taxes	110	58
Bank's share in operating income of affiliated	(6)	1
Net Income Attributed to the Bank's shareholders	**96**	**52**
Return on equity (percentage)	80.1	54.6
Average Assets	1,027	824
Average Liabilities	756	729
Average Risk-assets	1,507	1,271

PRINCIPAL AREAS OF OPERATION IN SEGMENT

The investments of the Discount Group in non-financial companies are divided into two principal categories, as under:

- **Investment in private equity funds and in venture capital funds.** The activity in this field is made primarily through the subsidiary DCMI, directly by the Bank itself and through the subsidiary of MDB;
- **Investments in companies** (see hereunder).

INVESTMENTS OF THE GROUP IN PRIVATE EQUITY FUNDS AND IN VENTURE CAPITAL FUNDS

In the field of venture capital funds and private equity funds, the subsidiary DCMI participates in several funds, including:

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		For the year ended December 31, 2013*		
Vertex Israel II Fund	160	15	15	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vertex Israel III Fund	174	13.5	13.1	0.4	
Vitalife Fund	50.3	10	10	-	Israel Discount Capital Markets and Investments has initiated the establishment of the fund, which specializes in investments in the bio-science field.
Fimi Opportunity II	293	50	44.3	-	According to a letter from the management of the Fund, no further "calls" will be made.
FITE - First Israel Turnaround Enterprise	129	12.5	3.1	-	The outstanding commitment for investment in the Fund has been transferred to FIMI Opportunity IV Fund, which began operations at the beginning of 2008 (see below). The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Fimi Opportunity IV	509	50	41.3	8.7	The commitment for investment in the fund includes the balance of the commitment transferred from the FITE Fund.
Golden Gate Bridge Fund	6	2	1.7	-	The fund engages in providing bridge financing for hi-tech start-up companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Plenus Venture Lending II Fund	55	5	4.9	0.1	Venture lending of the Dovrat Group, which engages in the granting of loans and credit facilities to technology companies.
Stage One Venture Capital Fund	46.3	18.8	18.8	-	The fund was established together with Bezeq and others and is engaged in investments in the field of communications and information technology. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Alon Fund	30	2	2	-	Of the Gaon Financial Management Group. Invests in late stage technology companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.

In the field of venture capital funds and private equity funds, the subsidiary DCMI participates in several funds, including (continued):

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		For the year ended December 31, 2013*		
Fortissimo Capital Fund	78	5	4.3	0.7	Turn around fund to technology based mature companies.
Edmond de Rothschild Europportunities	Euro 100 million	Euro 11.3 million	Euro 10.6 million	Euro 0.7 million	Private equity fund of the Rothschild Group.
Apax Europe VII	Euro 11 billion	Euro 7.4 million	Euro 7.3 million	Euro 0.1 million	A European private equity fund in the Apax Group, and is expected to operate mainly in Europe.
Plenus Venture Lending III Fund	120	15	13.2	1.8	A venture lending fund of the Dovrat Group, and is engaged in granting loans and credit facilities to technology companies.
Brack Capital Group real estate fund	109	5	4.5	0.5	At inception directed its investments towards real estate projects in India and China. Following the global crisis, the fund has changed its investment policy and now focuses on investments in the USA and Canada.
European realestate fund	Euro 416 million	Euro 10 million	Euro 9.6 million	Euro 0.4 million	Managed by the French AXA group.
Fortissimo II Fund	110	20	18.2	1.8	"Turn around" fund for technology based developed companies.
Carmel Software Fund	171	0.5	0.5	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
FIMI Opportunity V	821	70	14.3	55.7	Private equity fund.
Fortissimo III Fund	263	10	3.6	6.4	A private equity fund for technology and industrial companies with a growth potential which are at an "inflection point".
Stage One Ventures Capital Fund II	20	4	-	4	A venture capital fund to be engaged in investments in the communications and IT fields.
Investor club "Israel Growth Partners" (IGP).	193	6	-	6	Investor club which focuses on investments in technology companies being in a growth stage. The investment in the club will be composed of a commitment to invest and of a co-investment option.

* The amounts are presented in U.S. dollars, unless otherwise stated.

The outstanding balance of DCMI’s investments in venture capital funds and in private equity funds amounted on December 31, 2013 to US$160 million. As of that date, the balance of DCMI’s investment commitments amounted to US$86 million.

Additional investment in funds. In addition to the investment in funds through DCMI, the Bank has made a direct investment in an additional fund:

FIMI Opportunity Fund I. The balance of the Bank's investment in the aforementioned fund, as of December 31, 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, MDB is committed to investments in six venture capital funds. As of December 31, 2013, the investment of MDB in these funds amounted to US$2.8 million. As of December 31, 2013, the maximum commitment for the future investments in these funds amended to US$1 million.

Realizations. In 2013, realizations were recorded in 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 119 million, compared with NIS 69 million in 2012.

INVESTMENTS IN CORPORATIONS

As part of investments in corporations several investments in several companies were made. The outstanding balance of the investments of DCMI in corporations amounted as of December 31, 2013, to NIS 277 million. Following is a summary description of the principal investments:

Investment in 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 "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 December 31, 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 65.5 million. Investments in three companies were realized in the course of 2013. In respect of the investment in "dividend paying shares", DCMI recorded in 2013 dividend and realization income of approx. NIS 10 million.

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

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

Investment in "Menif" - Financial Services Ltd. Menif engages in complementing equity capital of building contractors as required by banks financing building projects in a closed project format. Complementing the equity capital is effected by way of providing guarantees in favor of the project in consideration of a return participating in profits. DCMI owns approx. 19.6% of the equity of Menif. For details regarding guarantees provided by DCMI, see Note 19 C 16 (b).

Sale of investment in "KFS" and additional updates. For details regarding an agreement made in March 2009, for the sale of the investment in "KFS", and developments in 2013, see Note 19 C 19 to the financial statements.

FURTHER DETAILS AS TO ACTIVITY IN CERTAIN PRODUCTS

CREDIT CARD OPERATIONS

STRUCTURE OF THE FIELD OF OPERATION

In recent years, the credit card serves as one of the principal means of payment in the market. The credit card is issued to the customer by the credit card company and the customer uses it for payment, as an alternative for cash or checks. The credit card company issues credit cards of two types: most of the cards are being issued to customers of banks (hereinafter: "banks included in the arrangement"). The remaining cards are being issued directly by the credit card companies to customers, not by way of banks (hereinafter: "off-banking credit cards").

As estimated by ICC, 80% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 1.5 cards in their possession. ICC estimates the number of cards in Israel at December 31, 2013 was 8.2 million. Furthermore, some 70 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

Use of credit cards is made possible by a contractual network covering four factors: an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.

The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission". This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.

THE OPERATIONS OF ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card and clearing of credit card transactions.

ICC (directly and through Diners Club, a company under its control) issues, markets and operates credit cards of the "VISA", "Diners" and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement.

In the issuance field, ICC issues (directly and through Diners Club, a company under its control) credit cards under two routes: (a) issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance or distribution agreements (above and hereunder: "co-issuance"). As regards these cards, ICC issues and manages the card, bears the costs of management of the card and of theft and forgery damage. The banks provide the credit facilities to the customer and bear the credit risk involved with the card; (b) issuance of cards directly by ICC, mostly through clubs and unique organizations. As regards to these cards ICC provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.

ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.

ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, as well as “Isracard” credit cards (in Israel only).

Clearing operations include the clearing of credit card transactions made in Israel, by way of "Point of Sale" appliances (POS appliances) located at trading houses.

In addition, ICC offers trading houses related services, which include, among other things: discounting of credit card transaction vouchers, advance payments for transactions effected and the granting of advances on account of future payments to trading houses with which the company is engaged in clearing agreements.

Following are quantitative data regarding the activity of ICC:

	December 31, 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	1,339	1,146	1,245	1,085
Off-banking cards	820	576	717	522
Total	**2,159**	**1,722**	**1,962**	**1,607**

Transactions turnover	For the year ended December 31, 2013	For the year ended December 31, 2012
	in NIS millions	
Bank cards	44,928	42,172
Off-banking cards	12,409	11,302
Total	**57,337**	**53,474**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "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.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

SCALE OF OPERATIONS AND NET INCOME

General. The volume of credit card transactions increases annually. The increase in the use of credit card derives both from an increase in the volume of transactions (as a result of population growth and the existence of a younger population that is accustomed to using credit cards as part of its consumer culture) and from an increase relative to transactions paid for through other means.

Income from credit card clearing operations is attributed to the corporate banking segment, the small business segment and to the middle market segment.

Net income in 2013 amounted to NIS 137 million, compared with NIS 172 million in 2012, a decrease of 20.3%.

The credit loss expenses amounted to NIS 27 million in 2013, compared with NIS 23 million in 2012, an increase of 17.4%.

Following are principal data relating to the credit card operations:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	For the year ended December 31, 2013				
	in NIS millions				
Interest income, net					
- From external sources	259	27	15	4	305
- Intersegmental	(30)	(8)	-	-	(38)
Total Interest income, net	229	19	15	4	267
Non-interest financing income	8	-	-	-	8
Commissions and Other income	804	42	34	9	889
Total Income	**1,041**	**61**	**49**	**13**	**1,164**
Credit loss expenses	21	2	3	1	27
Operating and other expenses	813	45	24	7	889
Profit before taxes	207	14	22	5	248
Provision for taxes on profit	70	3	7	1	81
Net Income Attributed to the Bank's shareholders	**119**	**5**	**10**	**3**	**137**
Return on equity (percentage)	18.0	6.9	27.3	15.0	17.5
Average Assets	8,235	358	380	100	9,073
Average Liabilities	2,422	754	789	210	4,175
Average Risk-assets	8,261	836	462	222	9,781
Components of Interest income, net:					
Margin from credit activity	229	19	15	4	267
Margin from deposits activity	-	-	-	-	-
Total Interest income, net	**229**	**19**	**15**	**4**	**267**

Following are principal data relating to the credit card operations (continued):

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	For the year ended December 31, 2012				
	in NIS millions				
Interest income, net					
- From external sources	265	32	18	5	320
- Intersegmental	(35)	(10)	(1)	-	(46)
Total Interest income, net	230	22	17	5	274
Non-interest financing income	10	-	-	-	10
Commissions and Other income	753	72	56	16	897
Total Income	**993**	**94**	**73**	**21**	**1,181**
Credit loss expenses	23	-	-	-	23
Operating and other expenses	752	50	32	10	844
Profit before taxes	218	44	41	11	314
Provision for taxes on profit	67	9	8	2	86
Net Income Attributed to the Bank's shareholders	**116**	**26**	**23**	**7**	**172**
Return on equity (percentage)	19.4	39.3	60.9	36.9	23.7
Average Assets	8,284	408	432	114	9,238
Average Liabilities	2,137	882	923	246	4,188
Average Risk-assets	8,026	899	523	236	9,684
Components of Interest income, net:					
Margin from credit activity	230	22	17	5	274
Margin from deposits activity	-	-	-	-	-
Total Interest income, net	**230**	**22**	**17**	**5**	**274**

REGULATIONS, LEGISLATION AND ARRANGEMENTS

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements.

Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards. In addition, clearing operations outside Israel of international trade transactions may be subject to foreign legislation and regulations.

The Antitrust Commissioner. The Antitrust Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 34 B 1 to the financial statements.

Banking Act (Licensing) (Clearing of charge card transactions). The Banking Act (Licensing) (Amendment No. 18), 2011, was published in the Official Gazette on August 15, 2011. The Amendment relates to the following four matters:

- Regularization of the clearing market by means of the granting of clearing licenses by the Bank of Israel, while certain provisions of the Banking Ordinance will apply to whoever obtains a clearing license, including all the provisions of the Banking Act (Customer service);

- The opening to competition of the issuance market in a manner that the Supervisor of Banks, following consultation with the Antitrust Commissioner, will be empowered to determine that a clearing agent who clears at least 20% of the total amount of transactions made in Israel in the previous calendar year shall be declared "A Clearer with Wide-Ranging Activity", and to compel such a clearing agent to enter into a cross-clearing agreement for the clearing of credit cards of an issuer, in cases where that clearing agent refuses on unreasonable grounds to enter into such an agreement with an issuer;
- The opening to competition of the clearing market, where, within the framework of the law, a duty has been imposed upon an issuer who issued in any calendar year at least 10% of the total number of credit cards issued in Israel, or where 10% of the transactions as above have been executed by means of his credit cards, being an issuer with "Wide-Ranging Activity", to enter into a cross-clearing agreement with any clearing agent, unless he refuses to do so on reasonable grounds. Notwithstanding, the Minister of Finance, following consultation with the Supervisor of Banks and the Antitrust Commissioner, may allow an issuer not to engage with a clearing agent;
- Regularization of the discounting market – the Act regularizes the discounting market and imposes various restrictions upon clearing agents, including the forbiddance of discrimination between discounting companies, forbiddance to refuse engagement with discounting companies and forbiddance of subjecting clearing services to additional services. Also, providers of discounting services must register with the Ministry of finance as providers of currency services.

The 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, and until the receipt of a permanent clearing license.

Advancement of Competition and Reduction of Concentration Act. The Advancement of Competition and Reduction of Concentration Act, 2013, (hereinafter : "the Concentration Act"; see "Legislation and Supervision" below) was published on December 11, 2013. The Concentration Act may have an impact of ICC, due to the following provisions:

1. Permits for the holding of means of control in a clearing agent – The Banking Act (Licensing) was amended within the framework of the Concentration Act, by the addition to the Banking Act of Section 36K(1), which states that the provisions of the Banking Act as regards permits for the holding of means of control in a banking corporation will apply also to the holding of means of control in a clearing agent. According to these instructions, a permit must be obtained for the purpose of holding means of control at a rate exceeding 5%, though the Governor of the Bank of Israel may specify a different rate. Accordingly, the shareholders of ICC, of the Bank and of FIBI, will be required to obtain from the Supervisor of Banks a control permit or a holding permit, as the case may be.
2. Separation of non-financial corporations from financial corporations – The Act prescribes limitations regarding cross-holdings, including the prohibition on a significant non-financial corporation, or on whoever controls it, to control or hold more than 10% of a certain class of means of control in a significant financial entity. This restriction applies also to the holding of means of control in a clearing agent.

   A shareholder who holds more than 5% in a significant non-financial corporation is prohibited from controlling a clearing agent which is a significant financial corporation. "A significant financial corporation" is defined by the Concentration Act as an entity the value of all its assets on a consolidated basis exceeds NIS 40 billion, and also a clearing agent having a wide-ranging activity of operations as defined in Section 36L(a) to the Banking Act (Licensing).

   The said restrictions may affect the shareholders of ICC, which control significant non-financial corporations. According to the transitional instructions, the holdings should be reduced within a period of six years.

   A committee to be established under the Concentration Act will issue a list of the significant financial corporations and a list of significant non-financial corporations.
3. The Concentration Act prescribes also limitations on the holding of cross-office in non-financial corporations and in financial corporations, and a transitional period for the application of these limitations.

Licensing of clearing agents. The Supervisor of Banks published on December 31, 2013, two documents in the matter of the licensing of a clearing agent. One document deals with the criteria and general terms in respect of whoever controls and holds means of control in an applicant for a clearing license, and the other deals with the process for obtaining a clearing agent license, in the framework of which the terms of issue of a clearing license to new clearing agents as well as to existing agents were detailed. ICC is studying the said documents.

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 (see hereunder).

Use of debit cards. On February 12, 2014, the Antitrust Authority published a draft for comments by the public, in the matter of the increase in efficiency and competition in the credit cards field ("the document"). Within the framework of the document, the Antitrust Authority reviewed the failures existing in its opinion in the credit cards field, which lead to limited competition, and proposed recommendations to rectify this situation in three aspects: (1) transactions involving an immediate charge (debit); (2) Advancing the payment date of issuers to clearers in deferred debit transactions; (3) creation of conditions for the development of a range of progressive means of payment. In the framework of the document the Antitrust Authority detailed the action that, in its opinion, should be taken in respect to each of the said aspects, in order to increase efficiency and competition in the field of credit cards in Israel.

At this stage, ICC is unable to assess the implications of the said draft, if and when implemented.

The separation of banks from credit card companies. On April 22, 2013, a private Bill for the amendment of the Banking Act (Licensing) (Amendment – the holding of entities issuing credit cards), 2013, was tabled before the Knesset. The Bill proposes that a banking corporation shall not control and shall not hold means of control in a company that issues credit cards. Additional private Bills of similar content were tabled in January 2014.

TECHNOLOGICAL CHANGES

Use of the "smart card". As part of the effort to reduce misuse and forgery of credit cards, the international VISA organization, the MasterCard Worldwide organization and the International Diners Club organization are adopting various measures to improve the security of credit cards carrying their brand names. These organizations have directed their members to introduce the use of a credit card with special features that complicate its use and/or forgery by unauthorized factors (hereinafter: "the smart card"). The transition date for the VISA and MasterCard brands had been fixed for January 1, 2005, while as regards Diners, the transition date had been fixed for October 29, 2013 (hereinafter: "the transition dates"). In order to induce issuers and trading houses to convert to the use of "smart cards", the international organizations determined rules concerning the assignment of responsibility in the case of misuse of a credit card under certain circumstances: for VISA and MasterCard credit cards, as from the transition date stated above, and for Diners credit cards, as from April 11, 2014. These rules state that in case of forgery/misuse of a card:

(1) If a "smart card" has been cleared by a trading house where a "smart" clearing appliance is not installed, costs will be borne by the trading house;

(2) Where a credit card which is not a "smart" card has been cleared by a trading house where a "smart" clearing appliance is installed, costs will be borne by the issuer.

In accordance with international organizations directives, the Company commenced preparations for introduction of the smart cards. ICC issues on a current basis, "smart" VISA credit cards and is preparing for the possibility of issuing also "smart" MasterCard and Diners credit cards. Such preparations include modification of the systems of ICC and the definition of a "smart" credit card profile as regards the card manufacturers.

In the clearing field, ICC has begun preparations for the EMV infrastructure, which includes the modification of the company's systems for the reception, processing and the transmission of data in a "smart" format, for the upgrading of the P.O.S instruments to "smart" instruments and the installation thereof at the trading houses with which ICC has clearing agreements, as well as for the cooperation between all credit card companies, the manufacturers of terminals and ABS for the purpose of defining the infrastructure between ABS and the credit card companies and between ABS and the terminals at trading houses.

Upgrading of the information systems. Starting with the year 2010, ICC implements a multi-annual layout for the replacement and upgrading of outdated systems and the setting up of updated infrastructure, at a determined pace of investments, in order to improve the efficiency, upgrade, stabilize and reduce risk as regards all the computer systems that support business activities. A multi-annual plan is also in effect regarding the implementation of Standard PCI (an international standard for the management of credit card systems).

In this respect, the following principal projects were put into effect during the years 2012-2013: replacement of the core servers of the HP Alpha type by HP Itanium servers; the absorption and launching was completed of the on-line communication system with outside factors (Switch) and of an "approval" module for requests for approval by a clearing party, which enables flexibility in the implementation of business logic in response to online messages (requests for approval, blocking, reactivating, etc.), as well as support for high speed activity while improving availability; the significant technological conversion of the SIEBEL system was completed, which is the central system by which the company provides service to its customers; the upgrading of the computer communication system was completed and a full segmentation of the network was made, as part of the preparations in respect of PCI and cyber subjects.

CRITICAL SUCCESS FACTORS

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, the company's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information technology systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms and long-term cooperation with Cellcom Company as regards the "electronic purse" enterprise.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Antitrust Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; existence of cross-clearing agreements between all credit card companies in Israel; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the operations of ABS and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

MARKET ENTRY BARRIERS

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the issuing entity being controlled by a banking corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling banking corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing "online" clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertizing and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

For details regarding the exemption from a binding arrangement concerning the joint holding and operation of ABS, which is intended to remove the entry barriers into the clearing market, see under "Legislation and supervision" below.

ALTERNATIVE PRODUCTS

Credit cards have many alternative products, beginning with traditional alternatives such as cash, checks, bank transfers, standing payment orders, purchase vouchers, rechargeable cards and credit offered by banks and off-banking credit companies, and ending with available, convenient and technology based alternative products, such as: payment by means of the smart phone and the "digital purse" service.

CUSTOMERS

The issuance field. The majority of ICC customers in the credit card issuance field are customers holding credit cards issued in conjunction with the banks included in the arrangement (including the Bank and MDB). ICC is investing special effort to increase the part of off-banking credit cards and to issue off-banking credit cards mainly through consumer clubs.

The clearing field. ICC customers in the clearing field are those traders that accept "VISA", "MasterCard" "IsraCard" or "Diners" credit cards. Additional customers in the clearing field are trading houses that require services of discounting vouchers or invoices, obtaining credit, early payments and advances.

MARKETING AND DISTRIBUTION

The issuance field. The banks included in the arrangement constitute ICC's "base recruiting level" for customers ordering credit cards through their banks. Consumer clubs serve as an additional "base recruiting level", through which ICC recruits off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.

The clearing field. The marketing operations in this field are directed towards the traders, including chains (marketing chains generally utilize one clearing agent for all their branches). Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, even following the engagement by the primary clearing agreement.

COMPETITION

The issuance field. The competitors of ICC in the issuing field are the IsraCard group controlled by Bank Hapoalim and Leumi Card Company controlled by Bank Leumi. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The clearing field is characterized by intense competition between the credit card companies.

Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and LeumiCard clearing the brands "VISA", "MasterCard" and "IsraCard".

Competition in the segment intensified during 2012, when the "IsraCard" brand, comprising 17% of the market, opened for clearing by all companies in this sector.

ICC is competing in order to expand the circle of trading houses receiving from it clearing and supplementary services, focusing on attracting new trading houses in clearing agreements, as well as preserving existing trading houses as customers while investing in considerable marketing and sales efforts. Another aspect of the competition in this segment relates to the development of new products and of financial and operating services designed for trading houses, which would increase the volume of business of the company with such trading houses (see the item "Products and services").

DEVELOPMENTS IN THE SEGMENT IN 2013

Charging of a deferred payment commission. On January 9, 2014, the Supervisor of Banks approached the credit card companies, including ICC, requesting explanations regarding the charging of deferred payment commission and its manner of computation.

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 34 B 3 to the financial statements.

A joint issue agreement with the "Farm club". In December 2013, ICC signed a joint issue agreement with the "Farm club", designed for Kibbutz and cooperative agricultural settlement members in Israel. The agreement states the rights and duties of the parties in the framework of joint operations, the object of which is the granting of benefits to members of the club and the distribution of Diners Club credit cards.

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.

Agreement with Mizrahi-Tefahot Bank. For details regarding the renewal of the agreement, see Note 34B(4) to the financial statements.

MATERIAL AGREEMENTS

An agreement with the Allon Group. For details regarding the agreement in the matter of YOU Club, see Note 34 A to the financial statements.

Agreements with banking corporations. ICC is engaged in agreements with various banking corporations (including the Bank and Mercantile Discount Bank and FIBI) for the purpose of the issue of credit cards to its customers. Issue of credit cards is made jointly by ICC and the banking corporation, where its status with the International VISA Organization permits issue of the cards. In other cases, issue of the card is made by ICC and the distribution to customers is made by the banking corporation.

For details regarding a joint issue agreement with Mizrahi-Tefachot Bank and regarding the grant to Mizrahi-Tefachot Bank of an option, see above and Note 34 B 4 to the financial statements. For details regarding a joint issue agreement with Union Bank and regarding the grant to Union Bank to purchase up to 3% of the share capital of ICC, see Note 34 B 5.

"IsraCard" credit cards clearing arrangement. On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement and a cross-clearing agreement for IsraCard credit cards. The agreements enable ICC to approach trading houses and to offer clearing the IsraCard brand through ICC. It should be noted that the market share of the IsraCard brand is approx. 17% of the clearing market. For additional details, see Note 34 B 2 to the financial statements.

An agreement regarding the "cellular purse". On February 6, 2013, ICC signed an agreement with Cellcom Israel Ltd. ("Cellcom"), with respect to cooperation in the issuance of an off-banking charge card ("the card") by ICC, intended for the Cellcom Group customers, within the framework of a joint enterprise of the parties. The parties will act towards the integration of the card within the cellular purse based upon an advanced technology.

The agreement shall remain in effect for a period of ten years, as of the date of signature thereof, and thereafter shall be automatically extended for an unlimited number of set periods of five years each. The agreement states the circumstances under which the engagement may be prematurely terminated, in accordance to a format determined in the agreement.

The agreement is subject to regulatory approvals, to the extent that these are required.

Club 365 agreement. On December 1, 2011, ICC signed an agreement of principles with Club 365 Ltd. (hereinafter : "Club 365") for the establishment of an off-banking credit card club. The credit cards are to be issued by ICC and marketed through all the companies incorporated within the Club 365, such as: viz. Hamashbir Latzarchan, New Pharm and companies which will join Club 365 in the future.

Within the framework of the agreement of principles, it has been determined that the credit cards will be issued as combined cards of Club 365 to existing and new members of the Club, and holders of such cards will be entitled to benefits and terms granted on a current basis to customers of the company in addition to benefits and discounts granted to members of the Club 365, while creating a beneficial differentiation for holders of the credit card.

The agreement of principles determines the manner of attracting new customers, advertising and marketing by both parties, as well as the consideration to which Club 365 will be entitled in accordance with operating indices determined in the agreement.

In addition, provisions have been included allowing a change in the model of cooperation between the parties into a model for the joint holding in the enterprise, subject to the provisions of the Law and regulatory requirements, to the extent existing. The detailed model for the joint holding in this enterprise is subject to approval of the Boards of Directors of ICC and of the Bank.

The period of engagement between the parties is ten years, though after five years each of the parties may decide to terminate the engagement, subject to giving a prior notice in writing of twelve months.

Extension of the period of the "PowerCard" agreement. On July 22, 2010, ICC signed an agreement with "PowerCard" (2000) Ltd. and with Fishman Chains Ltd. (hereinafter: "the Agreement"). The Agreement extends until December 31, 2015, the validity of a prior agreement signed by the parties, with certain amendments. The Agreement establishes the obligations and rights of the parties within the framework of joint activities aimed at promoting loyalty to the chains participating in the "PowerCard Club" on the one hand, and the distribution of credit cards issued by ICC on the other hand.

A joint issuance agreement with H&O Club. On December 29, 2010, ICC entered into an agreement with H&O Fashion Chains (2003) Ltd. (hereinafter : "the Agreement"). The Agreement extends until December 31, 2015, the validity of a previous agreement entered into by the parties, with certain changes. The Agreement establishes the rights and duties of the parties within the framework of joint operations, the aim of which is to promote loyalty to the chains participating in the H&O Club on the one hand, and the distribution of credit cards issued by ICC on the other hand.

Arrangements made between the credit card companies. For details regarding the arrangement for the cross clearing of VISA cards, for details regarding an amended cross-clearing arrangement, and for details regarding a cross clearing tripartite agreement of VISA and MasterCard charge cards, see Note 34 B 1 to the financial statements.

CLEARING OF INTERNATIONAL ELECTRONIC TRADE TRANSACTIONS

ICC had cleared in the past transactions in the international electronic trading field, an activity which the company has since discontinued.

For details regarding the police investigation and the seizure of documents and computer material of ICC, see Note 34 C to the financial statements.

For details regarding the demands by clusterers, see Note 34 c to the financial statements.

SEASONAL FACTORS

The seasonality in the fields of issuance and clearing depends on the seasonality of private consumption in Israel.

BUSINESS GOALS AND STRATEGY

The issuance field. Leading the market through the exhaustion of the banking lane and offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.

ICC is striving to become a significant player in the consumer credit market, through the issuance of off-banking charge cards as an infrastructure for increasing the credit to customers. ICC is striving for a position of strength as an entity that provides varied credit services (including through credit cards).

The clearing field. ICC's strategy is intended to convert the Company to a clearing agent marketing a comprehensive basket of products to traders, while enlarging its market share in the clearing field. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

ANTICIPATED DEVELOPMENTS IN THE COMING YEAR

Changes that occurred recently or which are anticipated and which may affect credit card operations:

- Continuing the reduction in the cross-commission rate – see Note 34 B 1 to the financial statements;
- Continuing the opening of the IsraCard market to clearing – see under "Regulations, legislation and arrangements" above;
- Regulatory guidelines as regarding operations with ABS and also as regards the use of immediate debit cards – see under "Regulations, legislation and arrangements" above.

OPERATIONS IN THE CAPITAL MARKET

DISCOUNT INVEST

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.

"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.

The service also includes foreign securities operations on the U.S. Stock Exchanges.

Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 23:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors subscribed to the TeleBank service, including foreign securities.

Customers having investments in amounts of between NIS 700 thousand and NIS 4 million, obtain services from nine countrywide investment centers, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.

An additional innovation relates to the pricing of commissions. Customers of the investment centers, excluding the users of "Discount trade", enjoy varied service lanes at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.

Customers having financial wealth enjoy a novel layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.

Alongside the above, the Bank has upgraded the service for all types of mobile telephones. The application installed by Discount is adapted to the Blackberry, Android and IPhone and versions and enables the receipt of information and the execution of capital market operations. In addition, customers can enjoy the "Discount SMS" service, which provides information regarding market indices at the end of trading.

TREND OF EVENTS AND DEVELOPMENTS IN THE MACRO-ECONOMIC ENVIRONMENT

The mutual funds market. The mutual fund market increased in 2013 by NIS 60.7 billion, from a level of NIS 170.1 billion at the end of December 2012 to a level of NIS 230.8 billion at the end of December 2013. Net positive deposits were recorded in all types of funds in 2013, principally in bond funds and monetary funds, which raised amounts of NIS 28.7 billion and NIS 18.8 billion, respectively.

The assets of funds specializing in bonds in Israel grew during the said period by NIS 30.9 billion, mainly due to increases in the assets of other bonds funds (NIS 34.5 billion). On the other hand, a decline of NIS 2.8 billion (36%) was recorded in foreign bonds funds.

The provident fund market. The provident fund market achieved in 2013 a positive return at an average rate of 9%. The said increase reflects the increases in the various indices of the Stock Exchange in 2013.

According to data published by the Capital Market Division at the Ministry of Finance, it appears that the assets of all the provident funds at the end of 2013 amounted to NIS 347,342 million, compared to NIS 318,842 million at the end of 2012, an increase of NIS 28,500 million (9%).

Furthermore, according to data published by the Capital Market Division at the Ministry of Finance Provident funds of the "Provident and Personal Severance Pay Funds" class had in 2013 a net negative accumulation in the amount of NIS 1,963 million. This compared to a net negative accumulation of NIS 3,741 million in 2012. The said data reflects the effect of changes in regulation with respect to provident funds.

New pension funds market. In 2012, the new pension funds achieved an average positive return of 11.58%. According to the data published by the Capital Market Division of the Ministry of Finance, the new pension funds in total had a net positive accrual amounting to approximately NIS 17.9 billion in 2013, compared to a positive net accrual of approx. NIS 15.8 billion in 2012. The volume of the new pension funds amounted to approx. NIS 157.8 billion in 2013, compared to approximately NIS 126.3 billion in 2012, an increase of approx. NIS 32.5 billion (approx. 25%).

The basket certificate market. According to data published by the Stock Exchange, acceleration was recorded in 2013 in the issue of new basket certificates, following several years of slowdown. Some 80 new basket certificates were issued in the past year (compared to 18 in 2012) and concurrently 13 certificates were deleted from the trading list. The total number of basket certificate traded at the end of December 2013 was 530, of which 316 basket certificates on local and international share indices and 189 basket certificate on local bond indices, short-term loans (MAKAM) and commodities. The total value of basket certificates held by the public at the end of 2013 amounted to NIS 111.5 billion, compared to NIS 71.7 billion at the end of 2012.

Capital market. For details regarding developments in the capital market in 2013, see "Capital market" above under "Main developments in Israel and around the world in 2013".

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

The regulatory framework relating to the capital market operations continues to be updated on a current basis and is expected to continue and influence the Bank's activities in this line of operation, including the pension consulting field.

Legislation and regulation amendments regarding pension savings

Homogeneous interface. At the beginning of 2009, the Capital Market, Insurance and Savings Department at the Ministry of Finance started to regularize the process of transferring information in the pension savings field, this by means of determining uniform interfaces ("unified record") for the use of the institutional bodies, license holders, including the banks as consultants, and other users of information. Since then to date, the Ministry of Finance published successively five circulars regarding the uniform structure for the transfer of data, each such circular replacing and cancelling the previous one, while amending the previous one and expanding the structure and contents of the information and data items that are to be transferred between the producers of the data and its various users. The fifth circular in the series was published on January 7, 2013.

On June 1 and July 1, 2013, respectively, the duties determined in the circular with respect to the use of the events interface and the holdings interface (hereinafter : "the interfaces") entered into effect. The Bank, similarly to the other entities to which the duty of use of the interfaces applies (distributors and institutional bodies), has developed these interfaces, though deficiencies were found in the reception of the information. In order to allow entities, as above, to identify the deficiencies and make the necessary adjustments, the Ministry of Finance has deferred, under certain conditions, the duty of use of the interfaces to November 1, 2013 and in continuation, the Ministry of Finance even published clarifications and updates for these interfaces, certain of which constituting a further deferral until March 16, 2014.

At this stage, the Bank properly receives the information transferred by a number of institutional bodies by means of the interfaces. As to the remaining institutional bodies, the Bank continues to cooperate with them in identifying the deficiencies and making the necessary modifications.

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, 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. Respectively, the instruction included in the circular dated October 7, 2013, "Compulsory use of the central pension clearing system" entered into effect on November 30, 2013. According to this instruction, an approach by a license holder to an institutional body making a onetime information request shall be made only through the clearing house.

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. It should be noted that according to the circular " Compulsory use of the central pension clearing system", the duty of use of the clearing house with respect to an approach by a license holder to an institutional body for the purpose of transacting business on behalf of a customer or for obtaining information regarding a product of the customer, shall enter into effect on January 1, 2016, unless another designated interface exists between the license holder and the institutional body.

With the beginning of operations of the clearinghouse, as stated above, the company that operates the clearinghouse published for users of the clearing house, institutional bodies and distributors, 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.

Capital Market Enforcement Intensification (Legislation amendments) Act, 2011. The Capital Market Enforcement Intensification Act was published on August 17, 2011. According to this Act, the three Acts that are connected to the supervision of the Commissioner of the Capital Markets, Insurance and Savings at the Ministry of Finance ("the Commissioner"), dealing with insurance, provident funds and pension consulting were updated. The Acts supervising insurance and provident funds, will establish the authority of the Commissioner with respect to supervision and administrative clarification as well as new arrangements concerning the imposition of monetary sanctions. Regarding the Pension Consulting Act, a more limited amendment is established, which will not add new arrangements regarding the imposition of monetary sanctions.

The preparations of the Bank and of the Group for the formation and implementation of the internal enforcement program regarding securities, includes, among other things, the pension consultancy field. For further details see "Legislation and supervision" hereunder.

Operation of provident funds. The Supervision over Financial Services Regulations (Provident funds) (Authorization to manage more than one provident fund), 2011, were published on August 30, 2012. The regulations allow a management company until January 1, 2014, to manage more than one provident fund of the same kind, if the said funds are managed by different operators. In consequence of the above, a management company that manages several provident funds of the same kind through different operators had to merge these funds into one fund until the said date, and to appoint one operator for the management thereof. An operating agreement was signed on November 24, 2013, between the Bank and a subsidiary of the Bank, and Clal Pension and Provident Ltd. ("Clal"), according to which the Bank will continue to operate the provident funds of Clal, which up to now had been operated by the Bank, as well as additional provident funds of the same type previously operated by other operators and which were merged into these funds on January 1, 2014, as required by the Regulations. The operating services stated in the agreement include back office services and services provided at the branches to members of the provident funds.

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. 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 said circular was expected to become effective on January 1, 2014, and to apply also to existing operating agreements. At the request of various factors in the market, operators and management companies, the draft circular did not become effective on the intended date, and the arrangement existing at the present time has been extended to June 30, 2014.

Legislation and regulation amendments regarding investment consulting, portfolio management, underwriting, mutual funds and custodian services

New regulation in the underwriting field. On June 3, 2013, the Israeli Securities Authority published the Draft of Securities Regulations (the manner of offering securities to the public) (Amendment), 2013, 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.

A file of Bills in the matter of reliefs and development of the capital market – updates regarding the manner of offers to the public. On December 5, 2013, the Israeli Securities Authority published the said file for public comment. The file includes Bills for the amendment of the Securities Act and of Regulations enacted under it, in order to improve the mechanism of public offers of securities. The proposed updates include updates of the mechanism of non-uniform offers, including the possibility of accepting early commitments also with respect to a non-uniform offer; updates related to instructions concerning the conflict of interests of underwriters; updates to the mechanism of early commitments (the institutional tender), including a proposal to delete from the list of those entitled to participate in the institutional tender of individuals mentioned in the first Addendum to the Securities Act, who purchase on their own behalf; a proposal to include in the Act an additional uniform offer mechanism, with a quantitative range, in which would be merged the public tender with the institutional tender, so that the company would conduct only one tender for all investors; a proposal to update the dates of the period for the submission of orders; and a proposal abolish the duty of the underwriter's signature on the draft Prospectus published to the public in an initial offering of securities and to update the price and quantity of the offered securities within the framework of the complementary notice.

New regulations regarding Mutual Funds. In February 2014, the Knesset passed the first reading of the Mutual Investment Trust Funds Bill (Amendment No. 21) (Basket certificates and basket funds), 2012, the purpose of which is to match the regulation applying to basket certificates and similar products to the regulation applying to 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 November 10, 2013, the Israeli Securities Authority issued for comments by the public the draft Mutual Investment Trust Regulations (Distribution commission) (Amendment), 2013. According to the draft Regulations it is proposed that a distributor, who enters into an agreement with a fund manager (including a manager of a foreign fund) for the payment of a distribution commission in respect of the fund managed by him, would not be permitted to charge the purchaser of a unit with any commission in respect of the purchase of the unit, the holding thereof, its redemption or sale.

Foreign funds. On November 10, 2013, the Israeli Securities Authority issued the draft Mutual Investment Trust Regulations (foreign fund unit offerings), 2013. According to the draft Regulations, the ISA is authorized to permit the manager of a foreign fund to offer units of that fund to the Israeli public, if a number of conditions exist, including that in accordance with the fund`s investment policy, the fund does not specialize in investments in Israel and that the price of the units of the fund are published on a current basis on an Internet site and are accessible to the public at no cost. Concurrently, an updated version of the Mutual Investment Trust Act (Amendment No. 15), 2013, has been tabled before the finance Committee of the Knesset, this in preparation for its second and third readings. This version proposes to determine as the default option, that foreign funds would not be permitted to offer units to the public in Israel, while authorizing the Minister of Finance to determine conditions in regulation, which when existing, it would be possible to offer units in foreign funds operating in accordance with the law of the foreign country regulating the funds, and which are being offered in accordance with a prospectus approved in the country of origin, an in addition to apply certain duties in connection with the offer of such funds to the public in Israel.

New regulation in respect of investment portfolio management and investment consulting. In January 2013, the Securities Authority published the draft Regulations for the Regulating of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management (The Duty of Appointment and Qualifications of Officers in a Large Portfolio Management Company), 2013, which is designed to inject substance into the Corporate Governance for Mutual Funds Managers and Portfolio Managers (Legislation amendments) Act, 2011. The essence of the proposed regulations is determining rules regarding the eligibility of directors, the officer in charge of internal control and the officer in charge of the internal compliance program, having regard to education tests and professional experience, as well as additional requirements intended to ensure that executives appointed to given positions are indeed suitable to fulfill them.

On December 19, 2013, the Israeli Securities Authority issued for comments by the public, an amended version of the "Instructions to license holders regarding the clarification of the needs and instructions of the client (New version -2013)", which proposes an efficient, purposeful and focused procedure.

Regularization of custodian services in Israel. On January 16, 2013, the Supervisor of Banks informed of the adoption of the recommendations of the inter-office committee for the regulation of custodian services in the capital market in Israel, published in January 2012. The recommendations of the committee were designed to determine basic norms in the field of providing custodian services, with a view to align them with international standards in this field and to increase the uniformity of the regularization applying to operators in this field in Israel. Banking corporations were required to implement the recommendations of the committee as from October 1, 2013, except for several requirements regarding custody services provided directly as well as all requirements applying to providing custody services as a broker, which will apply as from July 1, 2014.

Regulation with respect to voting on the Internet. The Securities Act (Amendment No. 53), 2013, was published in the Official Gazette on October 31, 2013. The proposed act is intended to extend the existing instructions in the matter of confirmation of ownership and voting in shareholder meetings also to option warrants, and to regulate the legal infrastructure for the establishment of an Internet voting system, through which holders of securities will be able to vote at various meetings through the Internet. This move is intended to increase the involvement of securities holders in meetings and realize their voting power.

The Internet voting system to be established by the Securities Authority will connect Stock Exchange members to potential voters. Stock Exchange members will be required, on the one hand, to submit to the system all the data regarding the potential voters holding securities through them, and who did not express in writing their refusal for the transmission of data in their respect, as stated, and on the other hand, to deliver to these potential voters the information required by them for the purpose of voting, including control passwords and information regarding the relevant meeting.

The Amendment will take effect on the date on which the Regulations regarding voting papers for holders of option warrants (not yet published) will take effect. Furthermore, the law amendment states that the Securities Authority will determine rules, among which, as to the manner of operation and use of the system. It is not required to publish these rules in the Official Gazette, however, the Authority will publish rules in the Official Gazette a notice as to the determination of rules, as stated, and the date on which they would take effect.

Draft Companies Regulations (Announcement and notice regarding a general meeting and a class meeting in a public company), 2000; draft Companies Regulations (Proof of ownership of shares for the purpose of voting in general meetings), 2000; draft Companies Regulations (Voting in writing and notices of position), 2005. In continuation of Amendment No. 53 to the Securities Act, which, among other things, regulates the matter of the electronic voting system, as detailed above, the Israeli Ministry of Justice, in cooperation with the Israeli Securities Authority, published on November 24, 2013, drafts of the amendments to the said regulations, the principal of which include the modification of the regulations to voting by means of an electronic voting system in accordance with Amendment No. 53 to the Securities Act. The drafts proposes to retain the mechanism of the "manual" voting paper with various adjustments, and to allow voting by means of an "electronic" voting paper in any matter and at any meeting; Imposing the duty of detailing the highest remuneration in the company within the framework of convening a general meeting, the agenda of which includes the approval of the remuneration policy, if the said remuneration is not included in a disclosure to the public in accordance with the Securities Regulations or in accordance with the foreign law in effect and modifying the dates for convening a general meeting in a manner that would allow the adding of an item to the agenda of the meeting being convened, and this in order to realize the rights of the shareholders under Section 66(b) of the Companies Act.

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.

Legislation proposals in the matter of reliefs and development of the capital market. In continuation of the "road map" plan published by the Israeli Securities Authority in September 2012, The Reliefs on the Capital Market and the Encouragement of Operations Thereon Act (Legislation amendments), 2014, was published in the Official Gazette on January 27, 2014. The principal amendments relate to the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management Act, 1995 ("the Consulting Act"), and to the Securities Act, 1968, and they deal with reliefs relating to enforcement matters (such as the extent of sanctions and the widening of the authority to reduce them), extending the period for the raising of funds in accordance with a shelf prospectus from two to three years and reliefs relating to investment consulting (such as reducing the frequency of the duty to conduct an update of customer needs process). The Minister of Finance was authorized to exclude certain types of financial assets from the definition of the term "financial assets" in the Consulting Act, in a way that would allow the sale of units in deposit and loan fund despite being considered a mutual trust fund, not by means of a consultant, similarly to bank deposits. The deposit and loan fund will constitute a development, a secondary classification, of a shekel monetary fund, especially conservative, the returns of which would reflect the returns inherent in "jumbo" deposits and in short-term loans (up to one year) of the Government of Israel and of the Bank of Israel.

Moreover, as part of the road map, the Israeli Securities Authority published on January 6, 2014, for public comment, legislation proposals in the matter of reliefs relating to immediate reporting. The principal reliefs relate to the Securities Regulations (Periodic and immediate reports), 1970. For example, extension of the date on which an immediate report has to be submitted and reducing the duty of reporting the appointment and termination of office of certain senior company officers.

The front-running Prohibition Bill. A draft of the Front-running Prohibition Bill (Legislation amendments), 2014, was published on February 18, 2014. The Bill deals with three principal issues: (1) prohibition on front-running by financial brokers and their staff – according to the Bill, a financial broker who traded in a security while having information obtained from a customer as to a future transaction to be effected in that security or in a related security, shall be considered as committing front-running and be subject to imprisonment of five years or to a fine of NIS 1 million and of NIS 5 million in case of a company. The communication of information as above is also considered a front-running offence, subject to the same punishment. The definition of a financial broker includes a banking corporation, a stock exchange member, a corporation holding a license under the Consulting Act, a manager of a mutual fund, management company, an insurer, an underwriter and a distributor. The Bill states several cases in which the said action shall not be considered front-running. (2) Prohibition on the use of an opinion obtained from an inside party of a corporation – the Bill states that the use of an opinion regarding securities of a corporation obtained from an inside party of that corporation, were the user is aware or may reasonably assume that that inside party has inside information, shall be considered use of inside information. It is further proposed to determine that information shall not be considered information unknown to the public after thirty minutes have elapsed from the time of publication on the MAGNA, or after the end of one trading day on the Stock Exchange, following the day on which such information was otherwise made public, in an accepted manner of making information public. (3) Restriction on the holding of securities and on trading in them - it is proposed to determine uniform limitations in the matter of the holding of securities and of trading in them by license holders and staff of mutual fund managers, to be established by regulations to be published by the Minister of Finance.

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.

"Safe Harbor" protection from use of inside information. A draft "safe harbor protection" from use of inside information upon transacting operations in securities of a corporation by officers, employees and principal shareholders of the corporation was published for public comment on December 31, 2013.

SCALE OF OPERATIONS AND NET INCOME

Net income recorded from operations in 2013 amounted to NIS 27 million, compared to NIS 57 million in 2012, a decrease of 52.6%.

Following are principal data relating to operations in the capital market:

	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	For the year ended December 31, 2013								
	in NIS millions								
Interest income, net									
- From external sources	-	-	-	-	-	-	-	-	-
- Intersegmental	-	-	-	-	-	-	-	-	-
Total Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	5	3	3	-	1	-	12	-	12
Commissions and Other income	225	41	57	10	44	6	383	57	440
Total Income	**230**	**44**	**60**	**10**	**45**	**6**	**395**	**57**	**452**
Credit loss expenses	205	42	47	9	51	3	357	51	408
Profit (loss) before taxes	25	2	13	1	(6)	3	38	6	44
Provision for taxes (tax savings) on profit	9	-	4	1	(1)	2	15	2	17
Net Income (loss) Attributed to the Bank's shareholders	**16**	**2**	**9**	**-**	**(5)**	**1**	**23**	**4**	**27**
Average Assets	-	-	27	-	-	1	28	-	28
Average Liabilities	-	-	3	-	-	2	5	-	5
Average Risk-assets	376	74	117	17	176	-	760	12	771
Average securities	38,167	8,463	104,607	8,896	15,425	-	175,558	12,006	187,564
Average other assets under management	2,048	407	574	240	307		3,576		3,576

Following are principal data relating to operations in the capital market (continued):

	Domestic operations						International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Total	Private Banking	Total
	For the year ended December 31, 2012							
	in NIS millions							
Interest income, net								
- From external sources	-	-	1	-	-	1	-	1
- Intersegmental	-	-	-	-	-	-	-	-
Total Interest income, net	-	-	1	-	-	1	-	1
Non-interest financing income	7	3	2	-	1	13	-	13
Commissions and Other income	224	36	47	10	39	356	55	411
Total Income	**231**	**39**	**50**	**10**	**40**	**370**	**55**	**425**
Credit loss expenses	174	34	39	8	43	298	51	349
Profit before taxes	57	4	11	2	(3)	71	4	76
Provision for taxes (tax savings) on profit	14	1	3	1	(1)	18	-	18
Net Income (loss) Attributed to the Bank's shareholders	**43**	**3**	**8**	**1**	**(2)**	**53**	**4**	**57**
Average Assets	-	-	(1)29	-	(1)-	29	-	29
Average Liabilities	-	-	1	-	-	1	-	1
Average Risk-assets	410	71	(1)114	19	(1)-	614	-	614
Average securities	34,065	7,088	90,785	8,678	(1)13,101	153,717	12,150	165,867
Average other assets under management	1,576	344	590	194	105	2,809	-	2,809

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

DEVELOPMENTS IN THE OPERATIONS

Re-pricing of commissions on securities operations. For details regarding the repricing of commissions on securities operations, see Note 35 to the financial statements.

Pension consulting services at Mercantile Discount Bank. Since the beginning of 2013, following the discontinuation of pension consulting operations of Mercantile Discount Bank, the Bank has begun providing pension consulting services at the branches of Mercantile Discount Bank by means of the Bank`s consultants and systems.

Distribution of mutual funds. The Bank has entered into distribution agreements with most of the companies managing mutual funds in Israel, for the purpose of distributing their mutual funds to its customers, in consideration for distribution commissions in respect of mutual fund units held by these customers, in accordance with the regulations in this matter. In addition, the Bank is in the early stages of preparation for the signing of distribution agreements with foreign mutual fund managers, once they are permitted by law to offer units of mutual funds in Israel managed by them. It should be noted that banks were prohibited, for the most part, from charging commissions in respect of the purchase and sale of mutual fund units.

Trading services in the capital market. The Bank provides various trading services in securities:

- Discount trade - a service intended for customers who operate independently in the capital market, and which includes an advanced dealing center and a state-of-the-art Internet trading system.
- An interface for securities operations on the Internet website.
- A designated trading interface for securities operations of institutional bodies.

Providing securities services to American customers. Following changes in the enforcement policy of the U.S. Authorities regarding bank accounts managed outside the U.S., the Bank adopted, in March 2010, a policy of terminating the provision of securities services to U.S. related customers (both existing and new), and to prohibit the use of American means of communication for the purpose of providing securities services to customers staying in the U.S., and suitable guidelines have been determined within the framework of the procedures applying to the operations of the Bank and of the relevant subsidiaries in the Group. As part of the current handling and monitoring process, the policy in this respect was updated in January 2013, and the issue of terminating the management of securities accounts of customers identified as U.S. residents was clarified. In view of updates of the relevant U.S. legislation and various clarifications received in the matter, the Bank is acting towards an additional update of the existing procedure.

DATA RELATING TO THE SCALE OF OPERATIONS IN DIFFERENT AREAS

Securities. On December 31, 2013, the balance of securities held for customers amounted to NIS 147.5 billion, including approx. NIS 10.6 billion of non-marketable securities, compared to NIS 122 billion as at December 31, 2012, including NIS 7.2 billion of non-marketable securities, an increase of 21%. For details as to income from security activities, see Note 25 to the financial statements.

In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2013, amounted to NIS 11.5 billion, compared with NIS 10.0 million in December 31, 2012, an increase of 15%.

Investment portfolio management. On December 31, 2013, Tafnit was managing 2,449 investment portfolios, which together were valued at approx. NIS 4,803 million, as compared to 2,002 portfolios valued in total at approx. NIS 3,963 million as at December 31, 2012. This data points to an increase of 22.3% in the number of portfolios managed and to an increase of 21.2% in the monetary value of the managed portfolios.

Pension advisory services. On December 31, 2013, the number of customers obtaining consulting services at the Bank amounted to 86,000. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2013, amounting to NIS 11.9 billion, compared with NIS 10.1 billion in the end of 2012.

MARKETING AND DISTRIBUTION

The distribution of products and services is undertaken by segment employees through the use of the Bank's existing distribution apparatus, the branch network, investment centers, private banking centers, staff units and the Bank's subsidiary companies. For further details, see "Consulting services" in the Section "The retails sector - General" in the Chapter "Activity of the Group according to principle segments of operation" above.

Following the legislation for the implementation of the Bachar Committee recommendations, the Bank has become a financial and pension consultant independent of the providers of the products, and distributes a range of financial and pension products.

CAPITAL MARKET SERVICES

The Bank provides its customers with an array of investment consulting services, securities trading and operating in Israel and abroad. These are offered to private customers, institutional customers and capital market operators. The Bank offers varied services, which include: equity securities activity in Israel and abroad, bonds (including convertible bonds), short-term Government loans (MAKAM), options, foreign currency, structured deposits, basket certificates, derivatives in Israel and abroad, securities offerings and lending of securities, as well as providing professional and objective investment consulting regarding securities and financial assets.

Some of the Bank's customers maintain securities portfolios managed by various portfolio managers operating through the Bank, including through the subsidiary Tafnit Discount Asset Management.

PENSION ADVISORY SERVICES

The Bank provides since 2008, pension consulting services to its customers and also to individuals who are not the Bank's customers.

The Bank provides pension consulting services with respect to provident funds, pension funds, further education funds and insurance products through pension consultants operating at the Bank branches and investment centers.

Public awareness as to the importance of pension planning had grown in recent years, and as a result, the demand for pension consulting services provided by the Bank has grown significantly. A number of systems and auxiliary tools have been developed as part of the pension consulting services support layout:

- Pension consulting system – a computer system devised as a decision support tool for the pension consultant in recommending and choosing pension products for the customer. This system is being adjusted and updated in accordance with regulatory requirements and business needs;
- An automatic forms system including a graphic signature, for the production of operational instruction forms addressed to the institutional bodies with which the Bank has distribution agreements, based on the results of the pension consulting;
- Presentation of a customer portfolio on the direct lanes – the Bank's customers who receive pension consulting services, and who have permission to access the direct lanes (the Internet or the Bank's automatic service machine) may view the details of the pension products included in their portfolio;
- Pension information portal – providing professional support for consultants, which is being updated on a current basis.

The Bank is obliged to enter into engagements with all institutional bodies managing provident funds, new pension funds as well as further education funds, which wish to do so, with the exception of insurance companies. As of date of preparation of these financial statements, the Bank entered into distribution agreements with most of the institutional bodies operating in the pension market, for the distribution of products managed by them, in consideration for a distribution commission at rates and payment terms identical to those for an identical service. The maximum distribution commission rate is determined by Regulations, and the commission is payable in respect of pension assets (excluding insurance products) of customers receiving pension consulting services from the Bank.

At the "Adif" conference for 2013, the Bank has been elected, for the third consecutive time, as a leader in the pension consulting layout category of the banks, within the framework of the annual election rating of the insurance, pension and finance media reporters and the readers of "Adif".

COMPETITION

In the capital market activity, the Bank competes both with other banks and with private brokers. In the field of financial products competition exists against the consulting entities as well as against the marketing entities (the providers of the products) as regards the sale to customers of one or another financial product.

An institutional body pays a commission to a distributor, who is a license holder (pension consultant, marketer or pension broker), in respect of customer products which the institutional body manages, to the extent that the distributor had been appointed by the customer. The customer may at any time revoke the said appointment and/or transfer it to another license holder, and as from that date, the institutional body will pay the commission to the new license holder (if appointed) and the payment of commission to the previous pension consultant will be discontinued as from that date. Accordingly, competition over a customer is expected between all license holders and institutional bodies.

At the present time, most of the banks are active in the pension consulting market.

GOALS AND BUSINESS STRATEGY

- Improvement in securities trading by means of the Internet, development of the activity of arbitrage player and capital market players;
- Continued cultivation and distinction of the status of the investment consultant.

CONSTRUCTION AND REAL ESTATE ACTIVITY

MARKET DEVELOPMENTS

General. The growing activity in the construction and real estate sector continued in 2013 compared to 2012. The housing field expanded at a more moderate rate compared to previous years.

The volume of investment in residential construction grew in 2013 at a rate of 3.8%, further to a growth of 9.3% in 2012. The scope of investments in non-residential construction and other construction work increased at a significant rate of 12.8%, compared to an increase of 10.6% in 2012.

The following developments occurred in the various operating segments in 2013:

Residential construction

- Prices of residential units – The Owner-Occupied Housing Price Index rose in 2013 by 8.0%. The rise in the index resulted mainly from the low interest rate environment, which contributed to the continued demand for housing units as against beginnings of construction projects in volumes that do not cover the cumulative shortage created in the last decade;
- Beginnings of construction projects – The low number of beginning of construction projects in the last decade has created a cumulative shortage in the supply of residential units. The construction of 44,340 new residential units began in 2013, 41% of which, in the Central and the Tel Aviv regions. The number of residential units the construction of which began in 2013 is 3.4% higher compared with 2012, and exceeds the additional annual demand for residential units for the third consecutive year.

Demand for mortgage loans. The balance of mortgage loans increased in 2013 by NIS 19.5 billion (7.3%) to a level of NIS 288 billion, a rate equal to its rate of growth in the previous two years. The Bank of Israel has acted to reduce the demand for mortgage loans by introducing new limitations (from August 2013, see below) on the monthly repayment rate, the component of variable interest and the length of period of the loan, according to which it may be possible to purchase a residential unit. Indications that the measures taken by the Bank of Israel led to a reduction in demand for mortgage loans are yet to be seen.

The Bank of Israel interest rate. Interest in real terms, calculated as the difference between the Bank of Israel interest rate and the anticipated capital market inflation for one year ahead, was negative in 2013, and as of December amounted to 0.6%, a trend which started at the end of 2012. This low interest rate supports the continued demand for residential units and the moderate increase in housing prices.

Income generating real-estate - office buildings. In 2013, rental costs decreased in certain areas. Surplus vacant floor space exists in the central region, particularly in the Bnei Brak and Holon areas, which experience difficulties in occupancy of the new projects and a decline in prices.

Income generating real-estate - commercial buildings. A slight fall in prices was recorded in 2013, together with the maintenance of stability in occupancy rates. Notwithstanding the above, the decline was concentrated in certain cities and focused on old commercial properties, while in other cities, having an inventory of new commercial properties, rental prices recorded stability. There exists a considerable supply of approved building plans, the realization of which might lead to surplus supply that may cause a decline in rental prices.

Infrastructure. This sector in Israel mainly includes 3 areas: transportation (roads, railway lines and light rails), water (desalinization and sewage treatment) and energy (private power producers), and is in the midst of an acceleration in investments. The State of Israel has invested in recent years billions of NIS in infrastructure projects.

The outstanding projects in this field are the development of the infrastructure for the light railway and the BRT, the military training bases center project, The police training center, power production by use of renewable energy and more.

Real estate activity abroad. Investments by Israeli corporations in entrepreneurial and income generating real estate in certain Western European markets, U.S. and Canada, due to the following developments.

- North America – the commercial income generating real estate market continues its trend of recovery from the last crisis. The volume of new construction has grown, and so did occupancy rates and rental prices, accompanied by a growth in finance resources. On the other hand, the office buildings income generating real estate is recovering at a slower rate.
- The Canadian real estate market maintains stability in rental prices and in capitalization rates at commercial centers. On the other hand, certain decline in occupancy in the office building market was recorded.
- Europe – a gradual recovery takes place in the income generating real estate market in Europe, where the volume of investments in real estate in Ireland, Spain, Portugal and Italy doubled in 2013, as compared with 2012. The office premises and commercial centers rental sector is expected to grow, when the year 2013 saw already a rise in rental prices in London and in Dublin. The trend of purchases of properties located in the center of European cities by foreign investors, including institutional bodies, will continue. Demand for such properties by foreign investors may lead to a decline in returns on these assets.

DEVELOPMENTS IN THE ACTIVITIES OF FINANCING RESOURCES

Bonds. Companies operating in this sector issued in 2013 corporate bonds amounting to approx. NIS 17.5 billion, compared to NIS 10.2 billion in 2012. The volume of funds raised by the real estate sector comprised approx. one half of the total funds raised in 2013. Most of these funds were raised by large real estate corporations having a high credit ratingamong which are Gazit Globe, Melisron, Nitzba and others.

Finance by institutional bodies. In recent years, the growth in the nonmarketable credit offered by institutional bodies has materially increased. Most of the credit was designated for the finance of real estate and infrastructure projects in Israel and abroad. This trend is expected to continue in the coming years, leading to a more intense competition between the banks and these bodies.

EXPECTED DEVELOPMENTS IN THE ACTIVITY

Residential construction - Central region. The negative real-term interest rate and the cumulative surplus demand support the continued trend of stability and even a moderate rise in housing prices.

The rise in prices of residential units supports the continuing trend of demand being shifted to peripheral areas.

Income generating property - office space. In view of a significant volume of supply of office space, it is expected that prices and occupancy rates will decline, particularly in areas where projects of a significant volume are in the process of construction.

Income generating property - commercial space. Stability is expected in the short term in the demand for quality commercial properties, accompanied by stability in rental prices. However, a significant increase in construction beginnings may lead to a decrease in rental prices in the long term.

Infrastructure. Additional investments are expected in the coming years in amount of billions of NIS. The total amount of investments expected in P.P.P. projects (Public Private Partnerships) in Israel in the period during 2012-2015 is estimated at NIS 30 billion. In the fields of water, transportation, energy and construction (NIS 14.9 billion for transportation, NIS 7.5 billion for sea water desalination, NIS 5.9 billion for energy and NIS 1.7 billion for construction).

The above information comprises a forward looking statement. The above reflects the evaluation of the Bank's management while keeping in mind the information available to it at date of preparation of the financial statements, as discussed above in this Section and based on publications of various entities, such as the Central Bureau of Statistics, the Ministry of Housing, the Bank of Israel and others. The information may not materialize if the decline in the level of domestic demand will continue and/or intensify as a result of a deterioration in the political/security situation, a significant decline reaching a complete freeze in the availability of financing resources on the financial markets in Israel and abroad, intensified recession conditions in the global markets, continued fluctuations in interest and exchange rates globally and in the Israeli economy and other developments in macro economic conditions that are not under the Bank's control.

DIRECTIONS OF BUSINESS DEVELOPMENT IN THE MARKETS ACTIVITIES

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:
- Closed housing project financing, including small projects, in low volume of finance, in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- For the purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing and/or commercial building projects in the form of closed project financing;
- Financing projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level;
- Financing of income generating properties projects, mostly in the field of shopping malls and commercial centers in demand areas, by entrepreneurs having financial strength, while securing in advance a significant part of the potential rental earnings.

CREDIT POLICY IN THE CONSTRUCTION REAL ESTATE ACTIVITY

The Bank's credit policy is based on the following principles:
- Reducing the risk level inherent in the credit portfolio to this sector by focusing on financing operations in areas where the Bank has a positive experience with, and concurrently by reducing credit having a high level of risk;
- Focusing on the financing of operations in Israel;
- The financing of projects will be made under rules and restrictions determined by the Bank for providing finance to this sector, including restrictions on the concentration of borrowers and restrictions on sub-operations in this sector;
- Preference for financing borrowers having high financial strength and experience in this field, with whom the Bank has positive experience in transacting business;
- In view of the required specialization in this field, credit to the real estate sector will be mostly handled by the real estate and infrastructure department;
- The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the "construction loan" method, which allows close supervision of the project being financed;
- The closed project financing will be carried out under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more;
- The financing of income producing properties will be conditional upon the existence of financially stable tenants and the repayment ability servicing the debt.

SCALE OF OPERATIONS AND NET INCOME

General. In view of the increased activity in the field of residential construction in 2013, the Bank has expanded its business activity with construction companies. As reported with respect to most of the projects being built, the rate of sales exceeded the rate of construction progress, a fact that increased exposure to guarantees granted under the Sales Act against the utilization of the banking loan facility.

Net profit from operations in 2013 amounted to NIS 296 million, compared with NIS 308 million in 2012, a decrease of 3.9%.

The credit loss expenses amounted to NIS 70 million in 2013, compared to NIS 42 million in 2012, an increase of 66.7%.

The results of operations in the real estate segment have been affected by different trends characterizing the activity of the borrowers in the domestic and overseas markets, as detailed below:

Following are principal data relating to construction and real estate activity:

	Domestic operations				International operations			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	For the year ended December 31, 2013							
	in NIS millions							
Interest income, net								
- From external sources	50	520	129	699	121	22	143	842
- Intersegmental	(4)	(251)	(29)	(284)	(27)	(4)	(31)	(315)
Total Interest income, net	46	269	100	415	94	18	112	527
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	22	102	32	156	24	6	30	186
Total Income	**68**	**372**	**132**	**572**	**118**	**24**	**142**	**714**
Credit loss expenses	4	23	(9)	18	14	38	52	70
Operating and other expenses	10	61	30	101	56	23	79	180
Operating Income (loss) before taxes	54	288	111	453	48	(37)	11	464
Provision for taxes (tax savings) on operating income	20	105	40	165	11	(8)	3	168
Net Income (loss) Attributed to the bank's shareholders	**34**	**183**	**71**	**288**	**37**	**(29)**	**8**	**296**
Return on equity (percentage)	48.7	13.7	20.6	16.5	9.1	(24.2)	1.5	13.0
Average Assets	935	11,464	3,444	15,843	3,883	1,935	5,818	21,661
Average Liabilities	740	1,989	877	3,606	921	313	1,234	4,840
Average Risk-assets	880	16,667	4,232	21,779	5,136	1,505	6,641	28,420
Components of Interest income, net:								
Margin from credit activity	40	262	94	396	75	12	87	483
Margin from deposits activity	6	7	6	19	19	6	25	44
Total Interest income, net	**46**	**269**	**100**	**415**	**94**	**18**	**112**	**527**

Following are principal data relating to construction and real estate activity (continued):

	Domestic operations				International operations			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	For the year ended December 31, 2012							
	in NIS millions							
Interest income, net								
- From external sources	48	597	117	762	124	10	134	896
- Intersegmental	(5)	(314)	(17)	(336)	(25)	(4)	(29)	(365)
Total Interest income, net	43	283	100	426	99	6	105	531
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	19	114	27	160	14	3	17	177
Total Income	**62**	**398**	**127**	**587**	**113**	**9**	**122**	**709**
Credit loss expenses	(1)	(35)	13	(23)	13	52	65	42
Operating and other expenses	10	69	33	112	48	18	66	178
Operating Income (loss) before taxes	53	364	81	498	52	(61)	(9)	489
Provision for taxes (tax savings) on operating income	19	129	28	176	19	(14)	5	181
Net Income (loss) Attributed to the bank's shareholders	**34**	**235**	**53**	**322**	**33**	**(47)**	**(14)**	**308**
Return on equity (percentage)	57.5	17.0	16.7	18.4	10.4	(38.8)	(3.2)	14.1
Average Assets	802	(1)13,082	(1)3,139	17,023	(2)3,441	(2)1,637	5,078	22,101
Average Liabilities	671	2,265	810	3,746	688	144	832	4,578
Average Risk-assets	792	(1)18,380	(1)4,208	23,380	4,214	1,629	5,843	29,223
Components of Interest income, net:								
Margin from credit activity	37	274	94	405	83	3	86	491
Margin from deposits activity	6	9	6	21	16	3	19	40
Total interest Income, net	**43**	**283**	**100**	**426**	**99**	**6**	**105**	**531**

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.

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, a limitation applies to industry 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 rate of Bank's exposure as regards credit to the construction and real-estate industry as of December 31, 2013 reached a rate of 16.96% (17.29% at the end of 2012).

VAT Reimbursement Fund in respect of guarantees under the Sales Act. Guarantees under the Sales Act as well as the facilities for Sales Act guarantees issued by a banking corporation to a purchaser of the residential unit covering the payments for the purchase of the residential unit, have, until now, been taken into account in their full amount for the purpose of the sectorial limitation. These amounts included the VAT component. The Minister of Finance published a decision to establish a fund that will ensure the reimbursement of VAT to banks in circumstances where guarantees under the Sale Law are activated. The aim of the mechanism created upon the establishment of the fund is that exposure of banking corporations to risk in case a Sale Law guarantee is activated shall not include the VAT component. This will enable the reduction of the exposure amount included in the limitation stated above, and will allow the allocation of additional credit. The said mechanism is designed to operate for a defined period. By means of this mechanism, the banks would be able to allot an additional amount of NIS 6 billion, to construction and real estate projects during the period of operation of the Fund in 2013-2015.

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.

Update of the scale of Acquisition Tax. The scale of Acquisition Tax was updated on January 16, 2014, and the rates of Acquisition Tax were increased up to a maximum rate of 10%.

SERVICE TO CUSTOMERS OF THE SEGMENT

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition the financing operations of the segment are also conducted by business managers at the large corporations department, mostly with respect to holding companies, the principal activity of which centers on the holding of companies in the real estate field.

Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method). The unit engages in allocating appropriate finance packages with the participation of institutional investors (who have advantage in raising long-term financing resources) or in cooperation with other banks in financing the transaction.

MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

CRITICAL SUCCESS FACTORS OF THE OPERATIONS

The critical success factors of the segment include:

- Professional and skilled manpower;
- Proper monitoring and control over the credit granted to this segment;
- Understanding of the market and the consistent analysis thereof, including all its aspects, the entrepreneurs, the construction contractors, the competing financiers, the demand for housing and investments, the regulation and exogenous effects. The ability to respond to identified opportunities and concurrently the ability to respond to identified threats and risks;
- Current communication with customers, qualitative service, continued customer satisfaction as regards the quality of service and the financing of projects that had been completed;
- Providing prompt response to applications for credit and other related services;
- The offering of competitive terms from the aspect of project financing terms, the modification of the financial structure to the risk levels, adjustments to the capital requirements, which the entrepreneur has to provide, as a function of the quality of the entrepreneur, quality of the specific project, the levels of demand and of advance sales, the scope of the project and

the number of its stages, the housing units offered and the existing competition in the same demand area as well as the consideration of additional parameters;
- Use of specific analyzing and monitoring tools assisting in the decision making process and in the control during the period of project financing;
- Adequate understanding and mapping of the market is required in order to identify risks/opportunities in various sectors, e.g. standard residential construction, luxury residential construction, rental office and commercial property.

THE MAIN ENTRY AND EXIT BARRIERS OF THE OPERATIONS

Customers of the sector conduct business with several banks at any given time, so that the relative advantage of the operations is based upon the Bank's long-term relationship with them, including continued satisfaction as regards the quality of service and the financing of projects. In order to provide quality customer service, highly proficient personnel are required, with comprehensive familiarity with customers of this segment, nature of their activity and analysis of their needs and requirements, while adapting the Bank’s products to such needs. In addition, systems are required to monitor and control exposure and risks relating to project financing.
The said close-end system of project financing is, prima facie, supposed to allow the construction company to finance each project at another bank.
Nevertheless, considering the fact that surplus created in respect of projects financed by the Bank or current credit facilities allotted to companies and/or promoters is used in many cases as capital for leveraging other projects, a certain difficulty exists as regards the transfer from bank to bank, mainly among small and medium customers who are particularly affected by the limited availability of financial resources for the contribution of capital.
Suitable preparation is required for the purpose of compliance with regulatory as well as internal limitations prescribed by the Board of Directors with respect to the Bank's maximum rate of exposure in financing the sector.

ALTERNATIVES TO PRODUCTS AND SERVICES OF THE OPERATIONS AND CHANGES THEREIN

Off-banking financing constitutes an alternative financing source for segment customers as to long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.
In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.
The directives that had been determined following the recommendations of the Hodek Committee, which requires the obtaining of guarantees in performing issuance turned companies in this segment into preferred targets for institutional bodies due to pledges on real estate assets which they are able to provide as security for loans. Nevertheless, medium and small size customers are still highly dependent upon the banking industry in obtaining finance for their operations.

STRUCTURE OF THE COMPETITION PREVAILING IN THE OPERATIONS AND CHANGES THEREIN

Most of the competition in this activity takes place within the banking industry. The financing of infrastructure projects and income generating properties in Israel is facing also competition by institutional bodies (such as insurance companies and pension funds). In recent years, institutional bodies have established units engaged in the granting of credit financing income generating real estate, and the competition against these bodies is expected to intensify.
Some of the institutional bodies provide guarantees under the Sales Act to purchasers of apartments.

COPING WITH COMPETITION

The Bank has established a syndication unit in the Corporate Division with a view of increasing exposure to syndication transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt would be subject to the Bank of Israel instructions. Furthermore, the Bank has approved a unique policy for the syndication and sale of debt business which complies with the Proper Conduct of Banking Business Directives.
Other means exist for facing with the competition, among which is the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

PRODUCTS AND SERVICES

The services offered include:
- Credit for residential construction projects and/or income generating properties projects (primarily office and commercial space considerable parts thereof are marketed in advance);
- Credit for the construction and acquisition of income generating properties intended for commerce or office premises;
- Credit to acquisition groups;
- Credit for current finance and/or investments in Israel, and in exceptional cases also for investments abroad;
- Providing guarantees under the Sales Act to purchasers of residential units and to the rights of owners in land in the context of combination transactions;
- The granting of credit for national infrastructure projects at the construction and operating stages.

For further information relating to services provided to segment customers, see above, 'Corporate segment.'

MORTGAGE ACTIVITY

DEVELOPMENTS IN THE MORTGAGE MARKET

In 2013, the mortgage market continued to be typified by intense competition between the banks in this market. The volume of mortgage loans granted amounted to NIS 52 billion, an increase of 11% compared with 2012.

	For the year ended December 31		
	2013	2012	Rate of change in %
	in NIS millions		
Total housing loans granted by the mortgage banks, excluding internal recycling of loans	51,705	46,631	10.9
Loans from State funds	228	272	(16.2)

The instructions by the Supervisor of Banks published during the year (see below "Legislative restrictions") have led to a higher coefficient for risk assets in mortgage activity, both from the aspect of the financing ratio of the transaction and the aspect of the repayment ratio involved. The instructions led to a significant increase in the average risk assets relating to the activity in this segment.
In addition, the Supervisor has limited the loan component granted at a variable interest rate. Since its entering into effect, the instruction led to a shift from the variable interest option to fixed interest options. Such shift reduces the exposure of borrowers to changes in the monthly repayment amounts in the event of rising interest rates.

The rate of growth in the volume of the mortgage loan portfolio at the Bank in recent years was relatively low in relation to the sectorial growth. The Bank's share in the mortgage portfolio of the banking industry as a whole shows a downward trend.

With the conclusion of the merger of Discount Mortgage Bank Ltd. with and into the Bank, the marketing of the "Subsidized mortgage" product ("Discount Outline") has been discontinued.

A gradual increase was noticed in the course of 2013 in the marginal credit spread.

The repayments of mortgage loans are, among other things, affected by the unemployment rate in the market and by housing prices. On the background of the unemployment rate in 2013 and the housing price environment, the problematic debt remained at a relatively low volume.

SECTORS OF OPERATION

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank`s funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.

Multi purpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).

Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Approval of the individual mortgage files is conducted in designated branches, specifically defined for this purpose. A decline in the volume of these operations has been recorded at the Bank in recent years.

Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.

The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank’s and DMB's telephone services, respectively.

BUSINESS STRATEGY

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans, in branches regarded as "growth branches".

Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations has been approved within the framework of the merger. The policy defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, credit margins, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.

Upon the merger of DMB, the Bank activated a rating model, used in the approval of the transaction and its pricing.

In the past, the Bank granted mortgage loans covered by assisted insurance provided by EMI – Ezer Mortgage Insurance Company Ltd. A limitation has been determined in this matter, regarding the combined exposure to the insuring company. On the background of the Directive of the Supervisor of Banks regarding the limitation of the financing ratio in respect of housing loans, the Bank no longer approves loans covered by the said insurance.

ORGANIZATIONAL STRUCTURE

The mortgage loan activity is conducted at the Bank`s branches. The mortgage department at the banking division is responsible both for the granting of designated loans financing the purchase of residential units by private individuals, and for the granting of loans for whatever purpose secured by residential unit, granted to individuals not for business purposes. In this framework, the department is entrusted with the approval of mortgage loans having a high risk profile, credit underwriting following its approval, as well as the examination of loan portfolios prior to the granting of the loans. Furthermore, the department assists in the current management of existing loans, by operating a central clearing unit and units monitoring the appropriateness of collateral granted to the Bank, with a focus on life assurance and property insurance.
The mortgage files collateral underwriting units, focusing on determining the manner of its recording in the various files and the unit monitoring the advancing of the records over time are subject to the legal advisory group.

SERVICE

During the reported year, the Bank expanded the mortgage services in its branches. At the present time, eighty-five branches of the Bank provide mortgage services countrywide.
The Bank focuses on the granting of mortgage loans as a tool for preserving existing customers.
The Bank operates two centers specializing in the mortgage field: a sales center, dealing with approaches by customers interested in a new loan, including the current attendance to customers during the process of granting the loan, and a customer relations center providing responses to existing customers.
The Bank invests in the enrichment of knowhow of the staff operating in this field and in the improvement of procedures, focusing on shortening loan processing time.

SCALE OF OPERATIONS AND NET INCOME

Following are details regarding new loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit:

	2013	2012	2011
		In NIS millions	
From Bank funds [(1)]	2,901	2,606	3,785
From Treasury funds [(2)]	13	7	3
Total of new loans	2,914	2,613	3,788
Recycled loans	823	295	278
Total	**3,737**	**2,908**	**4,066**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 197 million in 2013, compared to NIS 240 million in 2012, and NIS 248 million in 2011.
(2) Including standing loans in the amount of NIS 7 million in 2013, compared to NIS 1 million in 2012 and NIS 1 million in 2011.

Net profit of the segment in 2013 amounted to NIS 21 million, compared to NIS 48 million in 2012, an increase of 56.3%. Profits in 2011 were affected by the provision included in respect of the anticipated expenses of the merger between the Bank and DMB. 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 2013, an expense in the amount of NIS 18 million was recorded, compared to a decrease of expense in the amount of NIS 6 million in 2012. 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 D 4.3 to the financial statements).

Following are principal data relating to the mortgage activity:

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	For the year ended December 31, 2013			
	in NIS millions			
Interest income, net				
- From external sources	887	43	10	940
- Intersegmental	(759)	(24)	(2)	(785)
Total Interest income, net	128	19	8	155
Non-interest financing income	-	-	-	-
Commissions and Other income	37	1	-	38
Total Income	**165**	**20**	**8**	**193**
Credit loss expenses	31	(10)	(3)	18
Operating and other expenses	130	11	2	143
Profit before taxes	4	19	9	32
Provision for taxes on profit	1	7	3	11
Net Income (loss) Attributed to the Bank's shareholders	**3**	**12**	**6**	**21**
Return on equity (percentage)	0.4	19.4	16.5	2.4
Average Assets	20,015	738	347	21,100
Average Liabilities	27	3	1	31
Average Risk-assets	9,907	795	454	11,156
Average other assets under management	1,045	-	-	1,045
Components of Interest income, net:				
Margin from credit activity	127	19	8	154
Margin from deposits activity	1	-	-	1
Total Interest income, net	**128**	**19**	**8**	**155**

Following are principal data relating to the mortgage activity (continued):

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	For the year ended December 31, 2012			
	in NIS millions			
Interest income, net				
- From external sources	227	47	5	279
- Intersegmental	(96)	(19)	(3)	(118)
Total Interest income, net	(1)131	28	2	161
Non-interest financing income	9	3	-	12
Commissions and Other income	38	2	-	40
Total Income	**178**	**33**	**2**	**213**
Credit loss expenses	-	(6)	-	(6)
Operating and other expenses	134	8	1	143
Profit before taxes	44	31	1	76
Provision for taxes on profit	17	11	-	28
Net Income Attributed to the Bank's shareholders	**27**	**20**	**1**	**48**
Return on equity (percentage)	3.8	27.1	3.4	5.9
Average Assets	(2)19,615	1,123	318	21,056
Average Liabilities	492	14	-	506
Average Risk-assets	(2)9,584	963	301	10,848
Average other assets under management	1,074	-	-	1,074
Components of Interest income, net:				
Margin from credit activity	(1)131	28	2	161
Margin from deposits activity	-	-	-	-
Total Interest income, net	**131**	**28**	**2**	**161**

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

LEGISLATIVE RESTRICTIONS

Supervision over Financial Services Regulations (Insurance) (Maximum insurance commission fees in relation to housing loans), 2012. The regulations were issued on September 24, 2012, according to which the commission fees payable by an insurer to an insurance broker with respect to comprehensive property insurance sold in connection with a housing loan, shall not exceed 20% (including VAT) of the insurance fee collected by the insurer from the insured. The regulations will enter into effect on January 1, 2013. The Regulations apply to commission fees payable in respect of housing loan contracts which became effective as from January 1, 2013, or contracts renewed after that date.

Proposed amendment of the Banking Order (Early repayment commissions), 2012. On November 15, 2012, the Supervisor of Banks published a proposed amendment of the Banking Order, which would become effective thirty days from date of publication of the amendment to the Order. The date of publication is still unknown. The essence of the proposal relates to a change in the formula used for the computation of the early repayment commission pertaining to loans granted by a banking corporation for the purchase of a residential unit or as a mortgage on a residential unit, to customers who were granted loans carrying interest at a higher rate than the average interest rate as published at date of taking the loan. For such customers, the formula for calculating the commission will be based on the average interest rate as known on the date of repayment as against the average interest rate as known on the date of granting the loan. In the event that the interest rate on the date of granting the loan is lower than the average interest rate in effect on the date of granting the loan, the formula will be based on the known average interest rate at date of repayment as compared with the interest rate of the loan (namely, the computation formula will remain as in the past). According to the proposal, the amendment shall apply to all early repayments made as from date of the amendment to the Order becoming effective.

Furthermore, in accordance with the proposal, the commission for not providing an early repayment notice will be abolished upon early repayment in the case of death of the borrower. The proposal includes also a change in the arrangements of notices by the customer prior to the making of an early repayment, as well as a change in the manner of disclosure that has to be given to the customer upon early repayment.

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.

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.

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

In the years 2010 to 2013, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market, as detailed below:

- **Letter of the Supervisor of Banks in the matter of developments in the risk pertaining to housing loans from July 11, 2010**. Within the framework of the letter, banking corporations were required to reexamine their credit portfolios and their credit policy with respect to mortgage loans, and to verify that their policy agrees with the risk appetite as defined in their business strategy as well as record an additional provision in respect of housing loans.
- **Letter of the Supervisor of Banks in the matter of leveraged housing loans from October 28, 2010.** Within the framework of the instruction, banking corporations were required to increase the risk weight of their housing loans, in accordance with criteria for amount, ratio of finance and type of interest pertaining to the loan.
- **Guidelines by the Supervisor of Banks regarding housing loans at variable interest rate from May 3, 2011**. Within the framework of the guideline, banking corporations are prohibited from granting a housing loan carrying variable interest, where the intervals at which the interest rate may be changed are shorter than five years, in respect of a part of the loan exceeding one third of the total loan amount. It is also required to provide disclosure to costumers that have taken loans carrying variable interest in respect of a part exceeding one third of the total loan.
- **Letter of the Supervisor of Banks dated January 1, 2011, in the matter of a group allowance in respect of housing loans.** Within the framework of this letter, banking corporations are required to record group allowance for credit losses in respect of housing loans, in addition to the allowance for credit losses based on the extent of arrears, and this in view of the fast growth in housing loans, which has not yet been expressed in the allowances based on the extent of arrears.
- **A Directive limiting the financing rate applying to housing loans from November 4, 2012.** The Supervisor of Banks issued a draft directive limiting the financing rate (LTV) relating to housing loans, which applies to loans that have been approved in principle since November 1, 2012 and thereafter.

In accordance with the Directive, a banking corporation shall not approve a housing loan that finances more than 70% of the value of the property, excluding housing loans serving the purchase of the first residential unit of the borrower, where the maximum financing rate will be 75%. The maximum financing rate in respect of housing loans serving the purchase of investment residential unit is 50% (investment residential unit – according to the reporting to the Tax Authority, including a residential unit purchased by a foreign resident). The said limitations shall not apply to a housing loan granted for the purpose of repayment of an existing housing loan, including refinancing, in an amount not exceeding the amount of the existing loan, as well as to a housing loan, which over 50% thereof is financed by State funds and which is guaranteed by it.

"Update of Guidelines Regarding Residential Real Estate". On February 19, 2013, the Supervisor of Banks published a directive that astringents the rules for the measurement of credit risk in the housing loans field, including:

- Increasing the risk weight on housing loans with a financing rate of between 45% to 60% of the property's value to 50%, instead of the 35% before, with regard to loans granted from January 1, 2013 and thereafter.
- Increasing the risk weight on housing loans with a financing rate of more than 60% of the property's value to 75%, instead of 35% before, with regard to loans granted from January 1, 2013 and thereafter.
- 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. This directive was implemented from the first quarter of 2013. (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.)

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 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.

ADDITIONAL DETAILS REGARDING THE MORTGAGE PORTFOLIO OF THE DISCOUNT GROUP AND THE RISKS INHERENT THEREIN

Following are details regarding the amount of loans and average financing ratios:

	December 31, 2013	December 31, 2012	December 31, 2011
Average amount of loan (in NIS thousands)	638	666	706
Average financing ratio for housing loans	53	57.5	56.7
Average financing ratio for general purpose loans	37.0	32.2	33.4

The average ratio of finance granted for housing by the Bank is declining in recent years, both due to the Bank`s focus on operations with customers belonging to selected segments, together with a risk adjusted pricing policy and due to the effect of the Bank of Israel instructions regarding the limit on financing ratio.

Following is the division of housing credit balances according to size of credit to borrowers:

	December 31		December 31		December 31	
Credit limit (in NIS million)	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public
Up to NIS 1,200 thousand	17,265	85.7	17,014	85.7	16,867	85.8
Between NIS 1,200 and 4,000 thousand	2,552	12.7	2,524	12.7	2,480	12.6
Over NIS 4,000 thousand	327	1.6	325	1.6	316	1.6
Total	**20,144**	**100.0**	**19,863**	**100.0**	**19,663**	**100.0**

It may be seen from the above data, that no material change in the overall mix had taken place at the Bank in the section of loans of over NIS 1.2 million.

Following are data regarding the volume of problematic debts in housing credit:

Year	Balance of problematic credit(1)	Of which: amount in arrears	Balance of allowances for credit losses(2)(3)	Ratio of problematic debt
	In NIS millions			%
2013	449	219	184	2.2
2012	447	204	181	2.2
2011	447	207	198	2.2

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2013 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 167 million, and also an allowance over the extent of arrears in an amount of NIS 17 million (as of December 31, 2012: NIS 167 million and NIS 14 million, and as of December 31, 2011: NIS 181 million and NIS 17 million, respectively.

(3) Not including group allowance.

Following is the distribution of housing credit granted, according to financing ratios and as a ratio of credit granted

	December 31, 2013		December 31, 2012	
Finance ratio (1)	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public
Up to 45%	901	31.1	799	30.7
Between 45% and 60%	1,270	43.8	1,129	43.3
Over 60%	730	25.1	678	26.0
Total	**2,901**	**100.0**	**2,606**	**100.0**

Note:
(1) The finance ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

Stability is noticed in recent years in the mix of credit granted at the different financing ratios. The component of loans granted at a financing ratio exceeding 60% is one quarter of the total credit granted.

Following are data regarding developments in housing credit balances according to linkage segments:

	Non-linked credit			CPI linked credit			Foreign currency linked credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31,	In NIS millions		% of total credit to the public	In NIS millions		% of total credit to the public	In NIS millions		% of total credit to the public	total
2013	992	7,446	41.9	6,273	5,073	56.3	6	354	1.8	20,144
2012	448	7,249	38.7	6,987	4,765	59.2	4	410	2.1	19,863
2011	207	7,343	38.4	7,184	4,516	59.5	2	411	2.1	19,663

Footnotes:
(1) Of which approx. NIS 190 million housing loans granted for acquisition groups which are in the process of collection.
(2) The credit balance is after deduction of allowance for credit losses.

In recent years, as a result of the preferences of the public, a shift is noticed from loans granted in the CPI-linked segment to non-linked loans.
Most of the loans are granted for an initial period of up to 25 years.
The outstanding balance as of December 31, 2013, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 1,408 million, comprising 7.0% of the total housing loans portfolio (as of December 31, 2012, the balance amounted to NIS 1,524 million, comprising 8.8% of the total housing loans portfolio).

Following are data regarding the composition of loans granted for housing purposes, divided by the ratio of repayments to earnings:

	December 31, 2013		December 31, 2012		December 31, 2011	
Ratio of repayments to earnings(1)	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public
Up to 40%	2,264	88.8	2,055	91.8	2,655	93.0
Over 40%	286	11.2	183	8.2	201	7.0
Total	**2,550**	**100.0**	**2,238**	**100.0**	**2,856**	**100.0**

Footnote:
(1) The finance ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

A growth was recorded in recent years in the volume of credit granted with a repayment ratio of over 40%. In this respect, it should be noted that as from the middle of 2012, the Bank operates a rating model, which takes into account additional parameters that supplement the repayment ability profile and which does not rely exclusively on the repayment ratio.
The volume of credit granted in 2013, with a repayment ratio of over 40%, approx. 11.2%, does not materially exceed the volume of this type of activity by the banking industry as a whole. It should be further noted that the data for 2013 was affected by a single transaction in this segment.

COMPETITION

The mortgage loan sector was characterized in recent years by mergers of mortgage banks that had been operating as separate entities, with the commercial banks owning them. At present, the five major banks have completed the merger of their subsidiaries operating in the mortgage field. This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.
The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans, making processes more efficient, widening the service spraed in the branches and providing preference service to segments of customers. Furthermore, the Bank is preparing for upgrading its systems in respect of interest spread management, with a view of improving the reaction time to customers' new mortgage loan applications. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

SEASONALITY

Certain seasonality exists in the mortgage loan field, which is typified by a reduced volume of activity during the holiday period as well as during the winter months, and on the other hand, activity increases in the third quarter of the year and in particular in the months of July and August.

MARKETING OF MORTGAGE PRODUCTS

The Bank does not act at the present time in initiative marketing of mortgage loans. As stated, the granting of a mortgage loan is made while focusing on existing customers and the activity is conducted by the Bank's branch layout. In respect of this segment, the Bank has no dependence on outside marketing and distribution agents.
Housing loans in MDB are granted through specialized branches of this bank.

INTERNATIONAL OPERATIONS

GENERAL

The foreign operations of the Discount group are mainly conducted by subsidiary companies in the United States and in Uruguay (including representative offices in Latin America), in Switzerland, and by the Bank’s branch in London.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE INTERNATIONAL OPERATIONS

The principal restrictions applicable to the international operations are briefly described below:
Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss

and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk propensity applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On December 31, 2013, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 20.59% of 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. It should be noted that in computing the exposure as of December 31, 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 monitors the development of the risks assets in respect of its operations in overseas extensions.

Overseas regulatory supervision. Operations of the international segment are subject to supervision on the part of the appropriate authority in the country in question.

In April 2013 a reform in the supervisory layout over financial institutions in Britain came into effect. This reform was admitted as part of the conclusion drawing process by the British Government, following the global financial crisis. In this framework, it has been determined that instead of the regulatory authority, the Financial Services Authority (FSA), two separate supervisory units will be established, as follows:

The PRA (Prudential Regulation Authority) which was set up as a unit of the Bank of England supervising the stability of financial institutions.

The FCA (Financial Control Authority) which was set up as an independent unit supervising financial institutions from the consumer aspect. The Bank's London branch is subject to both the said authorities.

U.S. legislation. The supervisory authorities in the United States issued on December 10, 2013, the final rules relating to the investment portfolios of banks ("Nostro"), as determined in the Dodd Frank Act. As part of the preparations for the implementation of the rules stated in the said Act, IDB New York changed during 2013 the composition of its investment portfolio.

SCALE OF OPERATIONS AND NET INCOME

Net profit of the operations in 2013 amounted to of NIS 165 million, compared with NIS 68 million in 2012, an increase of 142.6%.

The credit loss expenses in this segment amounted to NIS 75 million in 2013, compared to NIS 162 million in 2012, a decrease of 53.7%.

Following are the principal data relating to the international operations:

	Households	Corporate Banking	Middle Market Banking	Private Banking	financial management	Total
	For the year ended December 31, 2013					
	in NIS millions					
Interest income, net	[1]-	152	199	232	89	672
Non-interest financing income	[1]-	-	-	16	26	42
Commissions and Other income	[1]-	52	47	161	(20)	240
Total Income	**[1]-**	**204**	**246**	**409**	**95**	**953**
Credit loss expenses	[1]-	50	33	3	(11)	75
Operating and other expenses	[1]-	116	127	334	69	646
Operating Income before taxes	[1]-	38	86	72	37	233
Provision for taxes on operating income	[1]-	6	17	44	1	68
Net Income Attributed to the Bank's shareholders	**[1]-**	**32**	**69**	**28**	**36**	**165**
Return on equity (percentage)	[1]-	4.9	9.3	9.3	13.5	8.6
Average Assets	26	7,947	8,065	2,869	20,087	38,994
Average Liabilities	50	2,173	2,278	17,661	12,495	34,657
Average Risk-assets	20	7,992	9,466	3,181	3,330	23,988

Footnote:

(1) Amounts lower than NIS 1 million.

Following are the principal data relating to the international operations (continued):

	Households	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Total
	For the year ended December 31,2012					
	in NIS millions					
Interest income, net	[1]-	148	256	253	58	715
Non-interest financing income	[1]-	-	-	9	123	132
Commissions and Other income	[1]-	46	43	157	(22)	224
Total Income	**[1]-**	**194**	**299**	**419**	**159**	**1,071**
Credit loss expenses	[1]-	80	73	2	7	162
Operating and other expenses	[1]-	104	156	403	89	752
Profit (loss) before taxes	(1)	10	70	14	63	157
Provision for taxes (tax savings) on profit	-	11	23	8	47	89
Net Income (loss) Attributed to the Bank's shareholders	**[1]-**	**(1)**	**47**	**6**	**16**	**68**
Return on equity (percentage)	19.7	0.0	6.2	2.4	5.2	3.7
Average Assets	13	[2]7,164	[2]9,018	[2]2,574	[2]19,539	38,308
Average Liabilities	17	2,049	2,064	20,031	9,145	33,306
Average Risk-assets	11	7,864	10,008	2,849	4,019	24,753

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

TAXATION

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 29 L to the financial statements.

Rubik Tax Agreement. Two international treaties entered into effect on January 1, 2013 – a treaty between Switzerland and Great Britain and a treaty between Switzerland and Austria. These treaties regulate (both in respect of the past and in respect to the future) the taxation treatment of income and capital gains earned on financial investments at Swiss banks performed by residents of the said countries, who had elected to remain anonymous, and which preserves the protection of privacy in Switzerland.

In this framework, it has been agreed that the banks would withhold a one-off tax amount in respect of past years, and would continue to withhold a certain amount of tax in each year from the interest, dividend and similar income credited to the accounts of customers from such countries, on an anonymous basis and in accordance with the tax rates agreed upon in each treaty.

Where account holders would wish to declare their financial investments and pay the relevant taxes directly and personally, the banks, with the consent of the account holders, shall provide the details of their accounts to the tax authorities of their countries of residence.

IDB (Swiss) Bank is required to record a provision in an immaterial amount in respect of the above, comprising its share in the one-off amount payable in respect of past years, as agreed in the treaty between Switzerland and Great Britain.

An additional treaty, meant to be signed with Germany, has not been approved by the German House of Representatives and therefore is not yet effective.

DEVELOPMENTS IN THE SEGMENT

Sale of DBLA. For details regarding the examination of the possibility of the sale of DBLA, see Note 8 A to the financial statements.

Agreement between the Swiss Authorities and the U.S. Department of Justice. For details, see Note 6 F to the financial statements.

IDB (Swiss) Bank. For details regarding claims submitted by a former senior officer of IDB (Swiss) Bank, see "Additional legal proceedings" under "Legal proceedings" below.

Asset-Backed Securities. For details as to the Group's investments in asset backed Securities, see above "Securities" under "Developments of Assets and Liabilities" and Note 3 to the financial statements.

SERVICE TO SEGMENT CUSTOMERS

Europe. IDB (Swiss) Bank is a Swiss subsidiary, wholly owned by Discount Bank, operating through the Geneva Branch, and provides solutions to both foreign residents and Israeli customers, regarding advanced private banking services and investment management in an international financial center.

A representative office of IDB (Swiss) Bank operates in Israel providing information and promoting the business of IDB (Swiss) Bank in Israel.

The representative office in Zurich of IDB (Swiss) Bank was closed in 2013.

Discount Bank branch in London focuses on business middle market banking services to Israeli and local customers and to corporations in the UK and in Western Europe. The main activity of the branch comprises the granting of credit to the real estate sector, to the hotel sector and the financing of foreign trade in the fuel and energy field.

The branch provides foreign trade services that include documentary credits and the discounting of bills.

The representative office in France (Paris) of Discount Bank was closed in 2013.

America. IDB New York ("IDB Bank") is the largest of the Israeli banks operating overseas.

This bank maintains four branches in the New York area, one branch in Florida, two branches in California and one branch in the Cayman Islands.

IDB Bank has an Uruguayan banking subsidiary, Discount Bank (Latin America) (DBLA), and representative offices situated in Latin America and in Israel, which operates to provide information, and promote this bank's business in Israel.

SERVICES AND PRINCIPAL PRODUCTS OF IDB NEW YORK

Credit. IDB New York provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.

Middle Market. IDB New York grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. The principal business sectors in which IDB New York is active are commercial real estate, apparel and related products, finance and food companies as well as financing local operations of Israeli corporations. Customers are being offered a wide array of services including foreign trade and financing operations in respect thereof as well as online cash management.

Asset based Lending. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.

Factoring. This activity includes instituting credit facilities against trade receivables of the customer. This type of bank credit increases the level of reliance of the borrower on his customers, improves the collection process from such customers and which enables the modification of the factoring package to the needs of the specific customer.

Commercial Real Estate Lending. The principal products are credit facilities and documentary credits as well as loans financing the purchase of commercial real estate and for the financing of multi-family housing projects. Included therein long-term loans are granted to stable projects and participations in loans are acquired together with other financial institutions in the U.S..

Private Banking. IDB New York provides varied professional private banking services to customers, who are U.S. residents as well as non-U.S. residents, having a high level of personal wealth. These private banking services are based upon stable and long-term relations with the customers and on the presence of the bank in Latin American countries and in Israel.

Available to the said customers are the products and services of IDB Capital, a subsidiary of IDB New York engaged in securities and insurance products services for customers. Also offered to customers are investment management and trusteeship services investment management and trust services.
In addition, the bank provides various credit services to the domestic and international private banking customers. In 2013, the bank completed its preparations for the granting of housing mortgage loans to these customers.

EXPOSURE TO RISKS AND RISK MANAGEMENT

RISK PROFILE OF THE DISCOUNT GROUP

The Discount Group is engaged in a wide range of financial operations involving risk taking. The geographical and business spread of the Group and the size of the subsidiaries in Israel and abroad in relation to the operations of the parent company expose the Group to an environment having a variety of different business and regulatory characteristics.
The major external effects, to which the Group is exposed, are:

- **The capital requirements from the banking industry.** The guidelines of the Supervisor of Banks regarding the implementation of the Basel III principles and the requirement for a minimum core capital ratio that should not fall below 9%, as from January 1, 2015, constitute a challenge for the whole banking industry and are expected to influence the ability of the banking industry, including the Discount Bank Group, to develop business activities involving a higher volume of risk assets. The Bank prepared 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, and it is acting towards its implementation;
- **Developments in economic markets.** The recovery of the developed economies headed by the U.S., will lead the global economy in 2014. After emerging from the recession in the course of 2013, the economy of the Eurozone is expected to grow at a slow rate, led by Germany. The developing countries are expected to recover at a moderate rate, with considerable differences between these countries. A relatively slow growth is expected in the BRIC countries in general and China in particular, with the small and export inclined countries presenting better performances. The slowdown in China derives, among other things, from action taken by the central bank intended to moderate the rate of growth in credit. The weakness of the Chinese economy impairs the developing markets, in Asia in particular, and increases volatility in the global equities markets. The Group follows and monitors the developments in the markets, and has determined indicators for the monitoring of the different exposures;
- **Intensified competition and erosion of income sources of the local banking industry** – the low interest environment, the growing regulatory supervision over income and the growing competition in the industry, lead to the erosion in sources of income of the banking industry and to the lowering of entry barriers for new competitors and to the continued transfer of banking operations to financial and technological bodies.
- **The domestic real estate market.** The real estate sector has the highest exposure rate concerning borrower operations in Israel. The Group is acting towards a change in the mix of the portfolio by means of spreading its operations to segment having lower risk profiles (in the granting of credit to housing project finance, to large equity costumers) and concurrently, the reduction in exposure to segments and borrowers having a high risk profile;

- **Regulatory changes.** A trend of increased legal and regulatory requirements is being noticed in recent years in Israel and the world over, including the exterritorial application of the law, particularly as regards compliance and prohibition of money laundering, which increase the disclosure and reporting duties of banking corporations, requiring infrastructure preparations and integration of the changes among bank employees. Alongside the various regulatory changes, an increased enforcement trend is noticed in different areas (investment consulting, labor laws, antitrust laws, privacy protection, etc.). The Bank is performing a focused activity towards the improvement of compliance culture and verification of compliance with legal and regulatory demands;
- **Business continuity.** The regional geopolitical situation and the increase in cybernetic threats, require the Bank to prepare for the facing of stress situations and for the strengthening of business continuity processes. In this respect, the Bank has made preparations in accordance with Proper Conduct of Banking Business Directive No. 355 in the matter of business continuity, and from time to time it performs various exercises testing the preparedness of the Bank and the Group for various possible scenarios.

Operating efficiency ratios. The improvement of the operational efficiency ratios forms a part of the Group`s central goals and comprises a central challenge when facing a competitive environment, erosion in profitability and in sources of income of the banking industry, and in view of limitations on flexibility in the management of payroll expense and sensitivity in the labor relations systems, among other things, on the background of the organizational changes, which the Group is required to make for efficiency purposes and the utilization of synergies.

In addition to the wide-ranging risk factors mentioned above, the Group is performing a process of identification and assessment of the unique major risk factors to which the Group is exposed.

RISK FACTORS TABLE

As part of the Group's risk management and in accordance with regulatory requirements in the matter, identification, analysis and evaluation processes are conducted in respect of the risks to which the Group is exposed, in accordance with the Group's methodology for the evaluation of the risk profile.

As part of the annual report, banking corporations in Israel are required to evaluate the effect of the different risks on the business of the banking corporation, according to the following categories: high, medium or low impact.

The following risk factors table shown below, presents the concluding product of the annual assessment process and includes a self assessment by the Bank's Management as to the level of exposure to risk, in accordance with the characterization of the activity unique to the Group, of the risk map and identification of the vulnerable areas of the Group, the developments occurring in the Group in the field of risk management quality, the control layout, etc. All these, as well as the methodology that had been formed for the internal capital adequacy assessment process (ICAAP), comprise, among other things, a basis for the assessment of capital requirements in relation to the Group`s unique risk profile, within the framework of the second pillar of Basel.

Due to the complexity of the described risks, including the ability to monitor and assess their influence, the Group makes use of various assessment tools, including the use of stress tests, risk cards and satellite models, which include various assumptions as regards the severity of the future event and as regards the probability of such an event materializing.

Notwithstanding, an objective and uniform scale for the translation of the results obtained by use of the said assessment tools to the assessment categories used in the table, does not exist in the banking industry.

In view of all that stated above, it should be emphasized that the assessment of the impact of each type of risk is a subjective assessment made by the Bank`s Management, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

RISK FACTORS TABLE

The risk	Risk Factor Impact	Risk description
1. Risk environment	Medium-High	A risk stemming from factors and events outside the Group: economic, financial, social, political and geopolitical events, in Israel and abroad, which might affect the Group risk profile. This, by materially impairing the ability of the Group to attain its goals and by damaging its profitability and market share. Assessment of the impact of the risk is based upon stress tests. Assessment of the impact of the risk remained "medium-large", in view of the growing cybernetic risks and the increasing regulatory demands as well as the preparations required for their implementation and on the other hand, a higher stability of the financial markets and the geopolitical risks.
2. Overall impact of credit risk	Medium	The risk of material impairment in the Group's value and its profitability, as a result of the deteriorating ability of borrowers to honor their obligations. The Group manages this risk by way of implementing strategy, policy and limitations on exposure, relating, among other things, to the volume and quality of the portfolio, borrower and sectorial concentration, collateral, credit control, etc. Assessment of the risk impact has been lowered to "medium" due to the decline in the volume of credit, with a focus on risk centers, while improving the composition and quality of the portfolio in accordance with the Bank`s policy, and in view of the improvement in the quality of risk management and controls, while preparing for the implementation of the instructions of the Supervisor of Banks in matters of management of this risk.
2.1 Quality of borrowers and collaterals	Medium	The risk of material impairment in the Group's value and its profitability, as a result of a high evaluation of the quality of borrowers and/or of the value of the collateral, in relation to their proper evaluation. Assessment of the impact of the risk remained "medium", despite the reduction in expenses for credit losses and in the rate of impaired credit, and improvements in the process of underwriting and monitoring credit.
2.2 Industry concentration risk	Low-Medium	The risk of material impairment in the Group's value and its profitability, as a result of deterioration of the business activity of a certain economic sector. Assessment of the impact of the risk remained "low-medium", mainly due to compliance with sectorial limitations at a conservative level and in view of the low exposure, relatively to the system, to the construction and real estate sector, and as well as in view of the determination of an outline in the credit policy for improvement of the mix of the portfolio.
2.3 Borrower/groups of Borrowers	Medium	A risk of the impairment in the value of the Group and its profitability as a result of a decline in the business activity of a borrower/large group of borrowers. Assessment of the impact of the risk remained "medium", despite the improvement in the different concentration indices and compliance with the limitation on borrowings of single borrower/groups of borrowers, in accordance with instructions of the Supervisor of Banks. In assessing the impact of the risk, the effect of the financial crisis on large borrowers and on groups of borrowers has been taken into consideration.
3 Overall impact of market risks	Medium	A risk of the material impairment in the value of the Bank and its profitability deriving from changes in the economic parameters of the financial markets, which affect the fair value at market terms of the Bank`s balance sheet assets and liabilities. Assessment of the impact of the risk has been increased from "low-medium" to "medium". On the one hand, the sensitivity of the Group`s economic value to market risk is decreasing, though on the other hand, the sensitivity of the accounting value is increasing, among other things, due to the expected recording of the investment in FIBI at market value. Also this year, improvements have been made to the quality of management and control, among other things, in the integration of accounting considerations and considerations affecting the planning of capital.
3.1 Interest rate risk	Medium	Interest risk constitutes a material risk to profits or to capital, stemming from movements in interest rates, re-pricing, a change in the yield graph and the effect of the optionality inherent in different financial instruments, both on the economic value of the Group's capital and on the regulatory capital. The assessment of the impact of the risk remained "medium", due to high exposure volume to the U.S. dollar interest rate and the effect of the risk environment and despite continuous improvements in the quality of management.

RISK FACTORS TABLE (CONTINUED)

The risk	Risk Factor Impact	Risk description
3.2 Inflation and exchange rate risk	Low	Risk of impairment of the value of the Bank, its profitability and capital ratios, as a result of the effect of changes in inflation rates or in exchange rates on the difference between assets and liabilities, including the effect of derivatives and transactions in futures. The assessment of the impact of the risk remained "low", due to immaterial exposure of the capital ratios.
3.3. Share price and credit spreads risks relating to the holding of securities	Low-Medium	Risk of material impairment in the value of the Group, its capital and profitability as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in the prices of equities and bonds. Assessment of the impact of the risk has been increased from "low" to "low-medium" due to the weight of the portfolio in the balance sheet of the Group, and as a result of the expected change in the recording of the investment in FIBI, from the equity basis method to the market value basis.
4. Liquidity risk	Low	Risk of a material impairment of the Group`s profits and equity, as a result of uncertainty as to the availability of resources and the ability to provide its liquidity needs, as well as the possibility of facing difficulties in honoring the Group's obligations due to unexpected developments, and would be compelled to raise funds and/or realize assets in a manner that would result in a material loss to the Group. Assessment of the impact of the risk remained "low", principally in view of the high liquidity level in the markets and in the Group and the quality of the proper management of the control thereof.
5. Operating risk	Medium	Risk of a material loss due to impropriety or failure of internal processes, failure of the Group's systems or as a result of external events, human errors, fraud and embezzlements and the absence of proper checking and control processes, including the risk of a material impairment of the Group as a result of exposure to IT risks, cyber threats and business continuity matters. Assessment of the impact of the risk remained "medium" despite organizational changes in the Bank and in the Group, made for the purpose of efficiency and which create increased exposure in the short-term and despite the increase the risk in the technological environment, this due to extensive actions conducted to improve the risk management processes in the Group, including the strengthening of preparedness in the matters of business and data protection continuity.
6. Legal risk	Low - Medium	The risk of a material loss caused by an inadequacy of failure deriving, among other things, from the absence of familiarity with local and/or foreign laws, absence of legal certainty as to the applicable law, failure in identifying changes in the law, retroactive changes in the law, mistaken legal advice, non-compliance with laws and regulations, etc. Exposure to the risk includes, but is not limited to, exposure to fines and/or punitive measures resulting from supervisory actions, as well as specific arrangements. The assessment of the impact of the risk remained "low-medium", in view of the many regulatory requirements and the need for preparations for their implementation, this despite the high quality of management thereof.
7. Compliance, Money Laundering and Financing of Terror risks	Medium	Risk of a material loss as a result of legal or regulatory sanctions, or damage to its reputation as a result of non-compliance with the provisions of the law or regulation, applying to it in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror. The evaluation of the impact of the risk remained "medium", despite the multitude of regulatory requirements and the requirements of foreign regulation, this, due to significant improvements made by the Group to the quality of risk management in the use of current control tools and actions for the improvement and integration of these matters as the central focus of the Group's work plans.
8. Reputation risk	Low-Medium	Risk of material impairment in the Group's business condition, so far as to cause liquidity difficulties as a result of damage to the Group's image, following various publications, correct or erroneous, as viewed by customers, suppliers, correspondent banks, investors, regulatory authorities and others and as a result of the materialization of a large number of factors, all together or separately, such as: embezzlement, damage to profitability or to capital adequacy, collapsing systems, employee sanctions, etc. The evaluation of the impact of the risk remained "low-medium", due to the quality of management of the risk.

RISK FACTORS TABLE (CONTINUED)

The risk	Risk Factor Impact	Risk description
9. Strategic risk	Medium	Strategic risk is a business risk, either of action (such as misled business decisions or improper implementation of decisions), or neglect (such as lack of response to changes in competition), the realization of which might cause a material impairment in profitability, equity, reputation and/or the Group's long-term positioning, thus preventing the Group from maintaining its position as a relevant and significant member of the banking system. Assessment of the impact of the risk remained as "medium", mainly due to the complexity of the risk environment, as stated above, including intensified capital requirements, the low interest environment and competition, all of which contribute to the erosion in the income sources of the banking industry, and the abundance of regulatory changes in Israel and abroad. On the other hand, the Group has made improvements in the quality of management and is presently forming its corporate and business strategy.

PRINCIPLES OF RISK MANAGEMENT

A global trend exists in recent years for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process.
The Group operates in Israel and abroad through the Bank, subsidiary companies, branches and representative offices, in all areas of banking and financial services. Accordingly, the Bank is studying the various risks to which the Group is exposed from a forward looking Group standpoint.

GROUP RISK MANAGEMENT

Risk management, including all its different components, is conducted on a group basis. Policy documents, tools, methodologies and infrastructure developed by the parent company are delivered to the subsidiary companies, which are responsible for their adoption, subject to adjustments required by their special operational characteristics. In recent years, the Group acts continuously towards the improvement and tightening of the management, supervisory and control capabilities of the Group, and for the improvement of Group management capabilities, while establishing strategic moves from a Group standpoint and utilizing synergies within the Group.
In this framework, various functions have been defined having group responsibilities, for forming and strengthening mutual interfaces and involvement in significant decisions taken by subsidiaries, and for improving the quality of control and of the group risk management.
During 2013, the development of monitoring and follow-up abilities continued at the Group level.
Risk managers at the subsidiary companies administratively subject to the CEO of the subsidiary, but are guided professionally by the Group's Chief Risk Manager.

RISK MANAGEMENT POLICY AND OBJECTIVES

The risk management concept formed by the Group, reflects and applies the spirit of the guidelines and rules detailed in the Basel guidelines and of the directives of the Supervisor of Banks regarding this matter, in the center of which is the Proper Conduct of Banking Business Directive No. 310 of December 2012, which states the basic principals with respect to optimal risk management. A gaps review with respect to the Directive was conducted during 2013, and preparations have been completed for its implementation.
The risk management concept is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk

management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the roles of the Board of Directors, Management and the definition of authority and responsibility of the functionaries taking part in the risk management processes. Furthermore, the documents define the tools and mechanisms for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments.

The risk management policy documents combined with the Group strategy, capital planning, the work plans and the restrictions on risk appetite, constitute the basis for the formation of specific policy documents as well as for determining the various responsibility and authority of the different control functions, in obligating work procedures.

The Bank and the Group are implementing an ongoing a process of integrating the organizational structure for risk management and regulation of identification, supervision, monitoring, reporting and control processes regarding risk management and the monitoring of the Bank's risk profile.

The various policy documents express and provide a supporting framework for methodologies, tools (models) and infrastructure established by the Bank. In this respect, we should note the use of various quantitative tools enabling the management of risk through varied statistical models (such as models for the credit rating of borrowers, models for assessment of market risks, etc.) as well as by means of methodologies and qualitative tools allowing an orderly and systematic process of identification, evaluation and monitoring of developments in risk and exposure. Alongside tools used for the current management of risk, the Group uses various scenarios in order to examine the exposure to risks under various scenarios and stress situations, as detailed hereunder.

In order to monitor that the major subsidiaries adopt the policy, the tools and the methodologies formed, with changes required by their operations, the integration and application of the methodologies and tools used in the management of risk is monitored. The methods and work procedures regarding risk management, in Israel and abroad, are examined and updated from time to time, in accordance with changes in the internal and regulatory business environment.

RISK MANAGEMENT TOOLS

RISK APPETITE

The declaration of risk appetite relates to the maximum level of risk, which the Group is ready to accept, considering its risk capacity, in order to attain its goals in the ordinary course of business and in stress tests. The risk appetite declaration reflects the risk preferences of the Board of Directors and is approved by it in accordance with the strategic plan and the capital planning.

The risk appetite declaration includes the definition of risks, which the Group accepts in the ordinary course of business and under stress tests, as well as 'top' restrictions with respect to the material types of risk. It also includes a description of the desired business directions and those that should be avoided, including reference to business focuses and growth generators, which comprise the basis for policy determination and specific restrictions with respect to each risk. The "top" restrictions are drafted both as a "qualitative" declaration and as a "quantitative" declaration (which include, among other things, the targets of capital adequacy, return on equity, capital ratios under stress tests, concentration of the credit portfolio and others), in accordance with the type of risk.

In April 2013, the Board of Directors approved the updated risk appetite declaration, which complies with the requirements of Proper Conduct of Banking Business Directive No. 310 and reflects the Group's desired risk level.

The risk appetite declaration is examined and updated on an annual basis, in accordance with changes in the business and regulatory environment, the capital outline and the required capital cushion, in relation, among other things, to new vulnerability areas and to the results of stress tests. The limitations on risk appetite are being monitored at quarterly intervals at the least.

STRESS TESTS

The Bank uses forward looking stress tests as a complementary tool for the risk management processes, the aim of which is to alert Management of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.

A uniform methodological framework was defined to establish an orderly work procedure for the implementation of stress tests at the Bank and at the subsidiary companies, which details the methodology and the models used by the Group to evaluate the effect of stress tests on credit risks, market risks and on certain components of the statement of income.

This methodology combines the examination of the effects of stress tests examining the effects of changes in macro-economic parameters on the statement of income items and on the equity, using internal models developed by the Bank, and the examination of the effects of stress tests on identified vulnerability areas/specific risk centers. The examination and evaluation process is conducted by the business functionaries. The said combination provides the Bank flexibility and relative speed in running a variety of scenarios with different sensitivity analyses on the one hand, and specific examination of the exposures on the other hand, while addressing the Group's unique risk characteristics and increasing the usefulness of the tool in the hands of the business factors and the risk management group, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

A uniform macro-economic stress test. The Supervisor of Bank published a letter in November 2013, according to which, banks are required to conduct for the second time a macro-economic stress test based upon two scenarios common to the banking industry as a whole. The scenarios include: a base scenario – based on the Bank of Israel forecasts, and a local stress test – characterized by a serious local economic recession, which is the result of a deteriorating security situation having serious implications on the housing and real estate sector.

As from this year, banks are required to integrate the uniform stress test into their Internal Capital Adequacy Assessment Process (ICAAP). The stress test results would also serve the Supervisor of Banks in the Supervisory Review and Evaluation Processes (SREP). The Bank implements the guidelines of the Supervisor of Banks in the matter.

FINANCIAL PLAN FOR THE STRENGTHENING OF THE CAPITAL IN TIMES OF CRISIS

The Bank formed in 2013 a financial plan for the strengthening of the capital adequacy in case of a crisis. This plan and the contingency funding plan (CFP) are two central documents regarding the financial business continuity. The aim of the plan is to establish means of facing situations involving a significant impairment of the capital ratios, in a manner that would reduce the risk of intensification of the crisis and would assist the proper management thereof. The management of a crisis, as stated, is based upon the following principles: identification of the crisis, declaration of the crisis and of the capital risk level, monitoring and reporting the capital adequacy ratios, examination of the updating of the risk appetite goals and its limitations and activating predetermined plans for the reduction in risk assets and the increase of the capital base.

APPROVAL OF NEW PRODUCTS

In accordance with guidelines of the Supervisor of Banks, prior to the introduction of new products/operations, it is required to perform an orderly and systematic process ensuring the identification and evaluation of all risks inherent in the new product/operation, while examining their effect on the risk profile and verifying the propriety of the infrastructure and controls supporting their operation. The said process has been established in a designated policy and in supporting work procedures applied by the Bank and the Group. The subsidiaries have been guided to deliver for examination and approval of the parent

company requests for approval of operation of new products that are material to the operations of the subsidiary.
Integration of the process at the Group level contributes to the ability to identify and evaluate new risks being created, and verify proper preparations and hedge of such risks by means of supporting work processes, infrastructure and controls.

RISK PROFILE EVALUATION

The Bank's and the Group's risk profile evaluation is performed by an orderly and methodical process, through a group methodology, which is at the base of the process for evaluating capital adequacy, the ICAAP (see a wider discussion below). Changes in the risk profile are examined on a quarterly basis, within the framework of the risks document, which was modified to the requirements of Proper Conduct of Banking Business Directive No. 310. The risks document serves as an evaluation tool assisting the Bank's Board of Directors in the monitoring of changes in the risk profile, while verifying that the Group does not exceed the determined risk appetite and that it maintains capital adequacy.
The report presents the position of the Chief Risk Officer with respect to changes in the risk profile, inter-alia, based on changes in the business and regulatory environments and while examining compliance with limitations and various indicators used for the monitoring of exposure, also by comparison in certain parameters with the banking system. Within the framework of the document, examination is made of material changes in the quality of risk management, including their effect, and quality and effectiveness of the risk management processes, and additional subjects and issues are raised, which enable the focusing of the discussion and risk based decision making.

MODEL VALIDATION

In accordance with the guideline of the Supervisor of Banks of October 2010, the Bank developed a policy with respect to the validation of models, implemented by the Bank, and respectively also by its principal subsidiaries, with the aim of minimizing potential risks stemming from the improper use of models.
The Bank maintains a models catalogue, serving as a basis of a multi-annual work plan for the validation.
The validation process of the models in use by the Bank was completed during 2013, and they were found proper and fitting the purpose for which they had been developed. Furthermore, a unit has been established for the management of model risk, with a view of fortifying the effectiveness of model risk management, as well as verifying that the risk profile remains within the limits of the risk appetite, and that work plans are being implemented for the reduction of model risks.

TRAINING, EXERCISING AND INTEGRATION OF RISK MANAGEMENT CULTURE

The Bank places considerable importance on the improvement and integration of the risk management culture throughout all echelons of the organization. This activity is performed both by the second line of defense (as defined hereunder, in the item "Lines of defense") and by the various control functions at the divisions and at the training group, which serve as knowledge integrators in areas of individual risk management, with across the board focuses in matters of compliance risks, prohibition of money laundering and operational risks management. The employee training and instruction processes include orderly training programs, knowledge tests, training in designated areas, formation of routine work procedures and risk focused controls as well as seminars on various subjects related to improvement of the culture, such as: drawing conclusions, analysis of material failure events, etc.
In order to assimilate the risk management culture in general and the operational risks management in particular, the matter was placed in the center of the work plan for 2014. Due to the nature of the operational risk, the Bank holds an annual instruction program, where in each year the instruction is directed at different levels of duty and instruction programs for all Bank employees are conducted periodically. Most of the instruction programs are conducted from a Group perspective and include the major subsidiaries in Israel.

In addition, with respect to the business areas, and the credit area in particular, instruction and training sessions are conducted periodically, with the aim of improving and updating the existing knowledge base and employees' professional level, including the study of failure events.

RISK MANAGEMENT CORPORATE GOVERNANCE

The Discount Group adopts a corporate governance framework in accordance with the Basel guidelines and the directives of the Supervisor of Banks, established as stated, in a series of infrastructure and policy documents regarding the various risks.
The Board of Directors, its committees and the Management place considerable importance on the establishment of a risk management culture, and endeavor to strengthen the professional stature and performance of the various control functions. This is expressed, among other things, by the allocation of resources and direction towards the improvement of existing monitoring, control and reporting processes.
The risk management structure at the Bank includes five principal lines: the Board of Directors, the Management, and the three lines of defense, as detailed below.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the Group's business affairs and for its financial soundness, and its operating framework is defined in accordance with Proper Conduct of Banking Business Directive No. 301 and is established in work procedures supporting its activities and the activities of its different committees.
The Board is responsible for outlining a strategy and policy that would enable realization of the business goals from a long-term standpoint and maintain the stability of the Group and acts to achieve a tightened and strong connection between the strategic planning process, capital planning, the risk appetite and the risk profile, so that they would be consistent with the business strategy. The Board is responsible for outlining the risk management policy and for supervising changes in the risk profile, in accordance with the risk appetite and the various restrictions determined under it.
The operation of the Board of Directors is performed by the plenum of the Board and/or by its sub-committees on different subjects, by means of current, periodic and designated discussions, including from a Group standpoint.
Control and monitoring of risk management are conducted by the various committees of the Board, the principal of which are:

- **The Board of Directors' Risk management committee.** The committee assists and advises the Board in fulfilling its duties, verifying the existence of effective risk management processes in the Bank and in the Group. The Committee discusses and recommends to the Board on a policy for the management of the various risks and supervises the implementation of the policy determined by the Board;
- **The Audit committee.** The committee examines the effectiveness of the internal control group through the various audit and control functions, monitors their findings and, among other things, is responsible to advise to the Board ways in which to rectify them. For the purpose of fulfilling its duties, the audit committee relies on the independent control functions, including the internal control group, the compliance, money laundering and finance of terror prohibition functions.

MANAGEMENT

The Bank's Management has many responsibilities as regards the risk management in the Bank and the Group. The policy documents (see above) include wide references to the tasks of the Management as an "organ" in the risk management field, where, in general, each task under the Board of Directors' responsibility, requires the prior attention of the Management – holding preliminary discussions, performing control and supervision tasks and forming recommendations for the Board of Directors. The Management is responsible for applying the risk management policy, maintaining control and supervision over the quality of risk management and the propriety of the risks measurement and evaluation. The Management acts through the Chief Risk Officer and the risk management group and through the risk managers committee.

COMMITTEES AND FORUMS

Different forums and committees operate within the framework of the Management, which contribute to and assist the Management in its risk management tasks. The principal forums and committees headed by the Chief Risk Officer, or anyone on his behalf, are: the risk managers committee, stress tests forum, model validation committee, new products committee, the committee for the prioritization of technological projects for the implementation of regulation, operational risks management committee, an independent review committee, a group allowance committee. Furthermore, a large number of designated committees regarding different fields of activity operate at the Bank. These committees are, among other things, involved in the risk management process. Among these may be mentioned the different credit committees, assets and liabilities management (ALM) committee, market and liquidity risks forum, the Group operational risk controllers forum, compliance officers forum, and more.

The risk managers committee. The committee constitutes the central forum by which risk management is being conducted. This committee holds current discussions regarding all matters required to promote and improve the risk management processes at the Bank and at the Group, including: methodologies, regulatory directives, accepted practice and such like; holding consultations regarding risk management matters; presentation of reports and formation of recommendations regarding the risk management field; deciding on the means and tools required for risk management; monitoring developments in risk exposure compared with policy and restrictions on exposure as determined by the Board of Directors.

The Bank's Chief Risk Officer heads the committee, the members of which are members of the Management who are risk managers at the Bank as well as the risk managers of MDB and of ICC.

The Board of Director's Committees, the Management committees and the different forums assist the Management and the Board to conduct in-depth discussions, which contribute to the improvement of the quality of control and management at the Bank. The various committees and forums convene on a periodic basis, certain of which on a group basis, and enable the focused formation of products brought for approval and comments by the Management and the Board, while examining and presenting an analysis and alternatives for the decision, and in many cases, the determination of clear indices supporting the decision making process.

LINES OF DEFENSE

The risk management concept at the Group is based upon three lines of defense participating in the current risk management:

- **Risk bearers (First line of defense).** All units of the Bank and in particular business units that accept risks and are responsible for the current management of such risks through control procedures conducted by the business functions in the front office as well as in the middle and back offices, which comprise designated control units operating in the business divisions. These units are sometimes responsible for the formation of "business strategy and policy", for its realization and for the implementation of the "risk management policy" in relation to the risks accepted within the framework of their operations. In recent years, the Group has strengthened their status, qualification and independence of the different control functions operating within the first line of defense, which are guided professionally by the Risk Management Group and the Chief Risk Officer, as detailed below.
- **Chief Risk Officer and the Risk Management Group (Second line of defense).** This line of defense is responsible for the overall risk management framework at the Bank. See below.
- **Internal audit (Third line of defense).** The internal audit has a central role in the risk management field, from a Basel standpoint, being subject to the Chairman of the Board, and as such, independent of the first and second lines of defense, and assisting the Management and the Board in the efficient and effective realization of their duties and responsibilities. Among other things, the internal audit conducts a current and independent review of the Risk Management Group and of the evaluation of the Group's risk profile, including efficiency and effectiveness of controls and of the resources allocated to a proper risk management, as well as an examination of the reliability and timing of reports to the Supervisor of Banks and to regulatory authorities.

RISK MANAGEMENT GROUP (SECOND LINE OF DEFENSE)

Heading the Group is the Chief Risk Officer, who is also a member of the Management who reports to the President & CEO independently from the business lines that create the risk. The Chief Risk Officer is required also to assist the Board of Directors in fulfilling its duties regarding risk management, and he has full access to the Board of Directors and to the Board's Risk Management Committee. The Chief Risk Officer is responsible for the management of all risks at the Bank and the Group, within the framework of the second line of defense, excluding legal and regulation risks, which are the responsibility of the Chief Legal Adviser, and financial reporting risks, which are the responsibility of the Chief Accountant (which receive support in the methodological field from the second line of defense).

Risk management has been defined by the Bank as a function having Group responsibility. Accordingly, special emphasis is being put on tightening the interfaces with the subsidiaries and the overseas extensions and on the guidance provided to them regarding the adoption of processes and tools in methodologies determined by the parent company, with the required adjustments. Among the main tasks of the group may be mentioned the identification and correct evaluation of the exposures and verification of capital adequacy, ensuring the long-term stability of the Group, taking into consideration, among other things, changes in exposures and in the business and regulatory environment, compliance with risk appetite as determined by the Board of Directors, involvement in material processes of decision making, such as providing a second opinion on credit applications and on investments that involve a material credit exposure and approval of classifications and allowances and in strategic processes, such as the planning of capital, with the aim of verifying the integration of risk management aspects in these processes and the examination of their effect on the risk profile at the Bank and the Group, as well as current reporting to the Management, to the Board of Directors and to committees of these organs, as a risk based management tool.

The Risk Management Group combines under it the independent functions of risk management, comprising the units managing credit risk, market and liquidity risks, operational risk, IT risks, model risks, as well as a second opinion on credit application unit, units for the management of compliance risk and prohibition of money laundering and finance of terror risks. The managers of the risk management units operate, as stated, as the second line of defense and conduct a variety of processes for the measurement, evaluation and control of risk and the development of methodologies. In addition, the Chief Risk Officer is responsible for control functions, including the credit controller, as well as functions in charge of supervision and evaluation processes, including supervision and control procedures over subsidiaries and overseas extensions, processes for the integration of the risk management culture, in accordance with the policy documents and the process for the evaluation of capital adequacy. Operating, in addition, is an information technology unit, which supports and manages a range of products assisting the management of the various risks.

BASEL AND THE REGULATORY CAPITAL REQUIREMENTS

GENERAL

The Basel Committee is an international body established in 1974 by the central banks of various countries. The decisions and recommendations of the Committee, though not legally binding, determine the supervisory principles according to which the authorities that supervise the banking systems in a significant number of countries around the world operate. In June 2004, the Basel Committee published recommendations intended to ensure proper regulation with respect to capital adequacy of banks in the various countries (hereinafter: "Basel II"). The "Basel II" guidelines have been regularized in Israel within the framework of Proper Conduct of Banking Business Directives Nos. 201-211. Most of these instructions have been amended in the course of 2013, and adjusted to the instructions of Basel III. In general, the amendments take effect as from January 1, 2014. For additional details, see below.

The Basel II instructions are comprised of three pillars:

- **First pillar - minimum capital requirements.** Defines the manner of computing the capital to risk components ratio. For additional details, see hereunder.
- **Second pillar - Supervisory evaluation.** Emphasizes the supervision and control process, the quality of risk management as well as capital adequacy in relation to the risk profile of the banking corporation. Within the framework of the second pillar banking corporations are required to conduct an internal process designed to evaluate the appropriateness of capital adequacy and to adopt a strategy intended to ensure capital adequacy - Internal Capital Adequacy Assessment Process ("ICAAP"). For additional details, see hereunder.
- **The third Pillar – "market discipline".** The banking corporations are required to present proper disclosure and expand the reporting to the public regarding the risks involved in their operations, in a manner that would enable the public to better understand the overall risks to which they are exposed, the way in which such risks are being managed and the amount of capital allocated in their respect.

FRAMEWORK FOR MEASUREMENT AND CAPITAL ADEQUACY ACCORDING TO THE FIRST PILLAR OF BASEL

The framework for the measurement and capital adequacy, as adopted by the Supervisor of Banks, applies to the Discount Group headed by the parent company, Discount Bank. The said framework applies also to a banking corporation and auxiliary corporations of the Discount group: MDB and ICC.

The framework is being implemented on a consolidated basis and there is no difference between subsidiaries included on a consolidated basis in accordance with generally accepted accounting principles and the supervisory consolidated basis of the framework. For details of the principal subsidiaries of the group, see "Main investee companies" and Note 6 to the financial statements.

Investments in financial companies, in which the Bank has a material influence and which are included in the Bank's books in accordance with generally accepted accounting principles, are deducted from capital for the purpose of implementation of the Directive. The principal investment in an affiliate as stated above, is the investment in FIBI (and this until the first quarter of 2014. For details, see Note 6E (1) to the financial statements).

CAPITAL REQUIREMENTS

- **Credit risks.** The capital requirements in respect of credit risks are computed according to the standard approach, in the basis of external credit ratings;
- **Market risks.** The capital requirements in respect of market risks are computed according to the standard approach;
- **Operational risks.** The capital requirements in respect of operational risks are computed in accordance with the standard approach, according to which, the gross income from the various business lines is multiplied by a different coefficient for each business line, which fluctuate between 12% and 18%, as determined in the instruction.

CAPITAL TRANSFERABILITY

Capital transferability is a key component in establishing capital adequacy for the Group. Discount Group regards a high level of capital transferability within the Group as supportive of Group capital adequacy, due to the capacity to transfer capital, if needed, between Group companies.

Capital transfer between Group companies may be achieved by issuing Tier 1 and Tier 2 capital between Group companies, purchase/sale of risk assets, or even by providing letters of indemnity so as to reduce the need for the actual capital transfer. Regulation and improvement of capital transfer procedures makes a material contribution to robustness of claims with regard to capital adequacy of the Group and of each individual subsidiary.

It should be noted that such capital transfer may be effected between subsidiaries, or from the parent company (the Bank) to subsidiaries. Indeed the Bank has, in fact, invested in capital and capital notes of certain subsidiaries, and has indemnified other subsidiaries. Capital transfer from subsidiaries to the parent company is not relevant. However, excess tier 2 capital in a subsidiary may serve the parent company in calculating capital adequacy.
For additional details, see above "Capital Management" under "Capital Resources".

THE ICAAP PROCESS - CAPITAL REQUIREMENTS ACCORDING TO THE SECOND PILLAR OF BASEL

The internal capital adequacy assessment process (hereinafter: "ICAAP") is a self evaluation process performed within the framework of the second Pillar of Basel II, which is intended to ensure a continuous capital adequacy of the Group in relation to its risk profile.
The ICAAP is a continuous process that includes an annual assessment of the capital adequacy, at a Group level, presented to the Supervisor of Banks in Israel as part of the ICAAP report, and which is examined by the Supervisor of Banks within the framework of the supervisory review process (hereinafter: "SREP"). During the year, following the submission of the annual report, the Chief Risk Officer monitors and supervises changes in the risk profile, ensures the capital adequacy, while monitoring and examining developments in risk assets and capital.
From the standpoint of the Basel II framework, the ICAAP is a process complementing the instructions of the first Pillar, providing obligatory framework for capital allocation.
In this process, the banking group is required to evaluate, by itself the adequate volume of capital requirements in relation to the risks to which it is exposed and to the quality of its risk management. Accordingly, the ICAAP includes an examination of all risk management processes in the Bank Group, including corporate governance of risk management, identification of material risks to which the Group is exposed, quantification of the overall exposure to risk in terms of capital and performing a comparison between the volume of exposure and the Bank's capital resources at the present time and from a forward looking standpoint, in order to determine whether the Bank's capital is adequate to ensure the financial stability of the Group and to provide a response to market cycles and to long-term stress periods.
As part of the ICAAP, banking corporations are required to reassess their capital requirements, both in respect of risks that were addressed by the first Pillar and material risks not addressed by it, and determine, subjectively, what is the adequate level of capital required in respect of such risks (capital adequacy assessment).
The additional risks included in the second Pillar are composed of risks not addressed by the first Pillar, where it is possible to compute the extent of related exposure and the capital allocation required in their respect on a quantitative basis (such as: concentration risk, interest risk in the banking book, etc.) and from qualitative risks, which are examined within the framework of the comprehensive examination of the capital adequacy (such as: reputation risk, compliance risk, strategic risk, legal risk, etc.). Furthermore, within the framework of the second Pillar, banking corporations are required to perform stress tests in order to examine their capital position.

DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management.
Qualitative and quantitative disclosure regarding the various risks is presented above and below in the Chapter "Exposure to Risk and Risk Management".
It should be noted, that a part of the data, the disclosure of which is required according to the third pillar of Basel, is presented in part "C" of the "Additional disclosure according to the third pillar of Basel" document, tables 1-7. The document is available for perusal on the Bank`s website together with the Bank`s 2013 annual report (this report), on the MAGNA site of the Israel

Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. (hereinafter: "the Internet document in the matter of Basel"). The data presented in the said tables is presented herewith and hereunder by way of reference. Furthermore, the Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B"), includes a table relating the disclosure requirements according to the third Pillar to the data presented in the Report.

BASEL III

The recommendations of the Basel Committee, "Basel III", are intended to improve the stability of banks in crisis periods (translation of the instructions is available on the website of the Bank of Israel). As part of the lesson learnt from the global crisis that started towards the end of 2007, The Basel Committee has decided that the core capital of banks comprises the principal component for the absorption of losses, in the ordinary course of business as well as in crisis times, therefore, the maintenance thereof at an appropriate level is required in order to avoid damage to the financial corporation. The recommendations refer to several principal issues:

- Improving the quality of capital;
- The addition of a requirement for leverage ratio management;
- The addition of a requirement for capital for different risks, such as counterparty risk in derivative transactions;
- The definition of a quantitative framework for liquidity, which dictates the liquidity ratio for a period of one month, and an additional liquidity ratio for a period of one year, the manner of their computation has to reflect also stress tests;
- Supervision that would review the risk to the financial system beyond the risk to a certain sector or a certain financial institution.

Within the framework of the said recommendations for improvement of the quality of capital, the Basel Committee recommends, among other things, that the core capital components should be strengthened and that its minimum ratio should be increased.

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 1 capital (hereinafter : common equity tier 1), and would principally include: share capital, retained earnings and capital reserves (including premium on shares);
- A new capital tier has been added – "additional Tier 1" 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 or a decision to provide capital inflow from the public sector, without which, the banking corporation may reach a non-viability point, as determined by the Supervisor of Banks ("non-viability" event).
- The differentiation existing in the "Basel II principles" between the two types of capital in Tier 2 ("Tier 2" and "Upper Tier 2") has been cancelled and accordingly the capital of Tier 2 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 2 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).

- Stricter regulatory adjustments in respect of the capital means have been introduced, as well as additional components to be deducted from the Tier 1 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 common equity Tier 1.
  - Investments in the capital of financial corporations exceeding 10% of the equity capital of the corporation, which is in excess of 10% of the common equity tier 1.
    The last two items are not to exceed 15% of the common equity tier 1.
  - Investments in the capital of financial corporations, which are below 10% of the equity capital of the corporation, which exceeds 10% of the common equity tier 1.
  - A ratio of 9% has been determined for the minimum common equity tier 1 to weighted average risk assets and a total capital adequacy ratio of 12.5%.
    In addition, it will be permitted to recognize the profits of the net capital reserve in common equity tier 1. In addition, surplus minority interests over the minimum requirement of the subsidiary company for common equity tier 1.
    On the other hand, banking corporations will be permitted to include within the framework of "Tier 2" 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).
- 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 from capital of regulatory adjustments will be gradually implemented in the years 2014-2018 (hereinafter : "the transitional period") and will be adopted in full as from January 1, 2018. The gradual adoption includes a deduction of only a certain part of the amount required to be deducted, 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 2" 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 2" capital in the transitional period, at diminishing rates, until their complete elimination at the end of the transitional period.

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

For details regarding the Bank's evaluation regarding the effect of the adoption of the new instructions, see "Capital resources" above.

REGULATORY FRAMEWORK FOR RISK MANAGEMENT

Completion of the preparations for the implementation of the various Proper Conduct of Banking Business Directives is one of the focuses of the work plan of the risk management group for 2014. In this framework, as explained further on, are included the integration of the operation of the "second opinion" unit, implementation of the instructions in the matter of group allowance, improvement of skills, assessment of the effectiveness and framework of the internal control.

INSTRUCTIONS PUBLISHED DURING 2013

Proper Conduct of Banking Business Directive No. 310 – "Risk management". On December 27, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 310 in the matter of "Risk management", which entered into effect on January 1, 2014. The Bank and its subsidiaries in Israel have conducted a gaps review in relation to the provisions of the instruction, and the preparations required for its implementation have been completed. The Bank continues the development and implementation of the risk management concept and the various tools used in support thereof, in line with the spirit of the instruction. This Directive replaced the Proper Conduct of Banking Business Directive No. 339 and the letter of the Supervisor of Banks in the matter of December 2009, and defines a general framework for overall corporate risk management as well as principal core processes required for the purpose of effective risk management, with the aim of supporting the ability of the banking corporation to identify and respond to developing risks in an efficient and timely manner. The Directive addresses the minimum processes and standards in the risk management environment and defines central concepts in relation to risk management processes with the aim of forming a uniform language. Furthermore, the Directive defines the defense lines required by the Supervisor of Banks, with everything based upon "corporate governance principles" and "supplementary instructions for the second pillar" of the Basel Committee. The Bank and its subsidiaries in Israel had conducted a gaps review in respect of the instruction and the preparations required for its implementation have been completed. The Bank continues to develop and implement a risk management concept and the various tools supporting it, according to the spirit of the instruction.

Proper Conduct of Banking Business Directive No. 333 in the matter of "interest risk management" and amendment of Proper Conduct of Banking Business Directive No. 339 in the matter of "market risk management". The Directives were intended to regularize the requirements and anticipations of the Supervisor of Banks from banking corporations in everything relating to market and interest risks management. The Directives correspond to the recommendations of the Basel Committee on the subject. An examination made did not reveal significant gaps between the market and interest risks management processes accepted at the Group and the principles detailed in the said Directives. For details see below "Management of market risks".

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

Proper Conduct of Banking Business Directive No. 342 – "Liquidity risk management". On January 16, 2013, the Supervisor of Banks issued an update to Directive No. 342. The effective date was fixed for July 1, 2013 (excluding the implementation of the stable financing ratio, the effective date of which was fixed for December 31, 2013). For additional details, see below in "Liquidity risk management";

Proper Conduct of Banking Business Directive No. 301A in the matter of " remuneration and measurement of employees". The Supervisor of Banks published the Directive on November 19, 2013. For further details, see "Remuneration policy in a banking corporation" under "Human resources" below.

For details regarding instructions in the matter of housing loans, published during 2013, see "Mortgage activity" under "Further details as to activity in certain products".

CREDIT RISK MANAGEMENT

Credit risk is the risk of losses being sustained as a result of the inability of a borrower or counterparty to honor their obligations, in whole or in part.

The credit risk management concept at the Bank and at the Group is designed to secure a proper balance between the business factors that directly create and manage exposure to credit risk, and the factors engaged in supervision, independent risk control and evaluation, and the factors engaged in the audit.

Hereunder is included reference, as the case may be, to the principal subsidiaries - IDB New York and Israel Credit Cards ("ICC"). In view of the fact that MDB is similar to the Bank in its general characteristics, from the general lines of operation and related regulatory aspects, no separate reference is generally included with respect to this bank.

Proper Conduct of Banking Business Directive No. 311 – "Credit risk management". On December 27, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 311, in the matter of "credit risk management", which came into effect on January 1, 2014. The Directive adopts the Basel Committee's guidelines and global leading supervisory authorities' concept with respect to credit risk management. Among other things, the Directive defines the structure of credit risk management required from a banking corporation, and the distribution of authorities regarding credit risk management among the various functionaries in the banking corporation.

These requirements comprise an adoption of the approach, according to which, in order to support proper credit decisions making, a high level of involvement by an independent factor in the business units is required. In particular, such involvement is required in the formation of the credit policy, in determining ratings in the classification of debts and in the determination of allowances for credit losses. It has also been determined that decisions regarding the approval of material exposure shall take into consideration the opinion of the risk management function.

On July 1, 2013, the work plan for the implementation of the principles of the Directive was submitted to the Supervisor of Banks, giving details of the planned adjustments. Throughout the year, the Bank acted in accordance with the work plan that had been formed and towards the improvement and advancement of risk management processes in the Bank and in the Group. It should be noted that gaps exist, the final date for the elimination thereof will fall after the date on which the Directive enters into effect and these differences have been reported to the Supervisor of Banks.

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 and entered into effect on January 1, 2014. 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 defining the areas of responsibility of the various factors. 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) the financial reporting and (3) measurement of 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);
- The Bank of Israel issued in August 2013 instructions regarding housing loans – see "Legislative restrictions" under "Mortgage activity" above.

THE BANK'S STRATEGY AND POLICY WITH RESPECT TO CREDIT RISK MANAGEMENT

CREDIT RISK MANAGEMENT POLICY

The credit risk management policy is aimed at establishing an infrastructure for credit risk management at the Bank and at the Group, in a manner that would contribute to attaining an adequate return for the risk taken (in risk adjusted terms), in accordance with the determined risk appetite, while understanding the credit risk profile of the Bank and the Group and ensuring that the level of capital reflects this risk profile.

The credit risk management policy document for the year 2014 has been updated in view of the publication of Proper Conduct of Banking Business Directive No. 311 ("Credit risk management") and in the light of the processes that had been performed and those that are being conducted by the Bank and the Group for the implementation of the Directive.

The approach forming the basis for the policy is the definition of the framework for credit risk management, and the responsibility of the functionaries at the Bank involved in the identification, measurement, monitoring and control processes regarding the credit risk that the Bank accepts.
The credit risk management policy determines, among other things, the organizational structure of the risk management, the role of the control functionaries, the credit risk appetite declaration, restrictions and limitations for credit risk acceptance, criteria for credit approval, the credit approval process, credit risk identification process, processes for the measurement and evaluation of credit risk factors and reporting procedures regarding exposure to credit risk.

CREDIT STRATEGY AND POLICY

The strategy and policy of the Bank and of its subsidiaries with respect to the granting of credit to the public are, among other things, intended to improve the quality of the credit portfolio, to diversify the portfolio, to limit its concentration and to spread out the risks inherent therein.
The Bank's policy and strategy documents are discussed and approved by the Management and the Bank's Board of Directors on an annual basis. Due to the crisis in 2008, it has been decided to examine the credit policy on a current basis, and where necessary, to submit to the Board of Directors a proposal for amendment of the policy.
In addition, a detailed credit policy is determined with respect to various areas and activities, among them: economic sectors, large borrowers and borrower groups. Special emphasis is put on economic activities having a material and unique credit exposure, such as: the acquisition of means of control, holding companies, leverage finance, the diamond sector, real estate and project financing, housing loans, acquisition groups, capital market participants and credit provided by the London Branch.
The credit policy documents for the year 2014 include also the Group credit policy document, which reflects the risk appetite of the Group, the object of which is to create within the Group a uniform risk concept in everything related to the subject of credit. The policy relates to the nonmarketable credit and is binding on each of the subsidiaries in Israel with the necessary adjustments.
A policy has been determined also for environmental issues in view of the increased awareness of ecological and social damage caused as a by-product of the activities of corporations and due to increased legislation in the matter and in accordance with the guidelines of the Supervisor of Banks in this respect. A policy has also been determined with respect to complex foreign trade transactions, syndication and the sale of credit, financial institutions, to the Bank`s operations versus custodians and to banks as well as borrowers in less developed countries (LDC).
In addition, the regulatory limitations imposed on banking corporations within the framework of directives of the Supervisor of Banks as to industry concentration, single borrower, group of borrowers, a banking borrower group, the credit policy of the Bank and of its subsidiaries include internal restrictions and lines of operation. The Discount Group complies with these limits.
In addition, the credit policy established criteria and guidelines for the granting of credit, a pricing methodology and rules intended to reduce the credit risk through collateral and its management.
The Bank's credit policy includes detailed rules regarding collateral, with reference to obtaining collateral, managing the different types of collateral and the rate of reliance thereon. As a general rule, the Bank grants credit to its customers against collateral of various kinds, including liquid assets, fixed assets and pledges and guarantees of all types. To the extent possible, the collateral is modified to the credit secured by it as regards to the credit period, currency of the loan, redeemed or renewable credit. A valuation of the collateral is made on a periodic basis. In addition, the credit policy determines maximum reliance rates according to the nature of the collateral.
The credit policy of IDB New York. The credit policy of the subsidiary, which is approved each year by its Board of Directors, establishes rules for the granting of credit according to the following categories of concentration: type of industry, geographical distribution, exposure to large borrower groups, risk rating and the real estate portfolio, with the aim of distributing the risks inherent in the credit portfolio.
In addition, the policy document determines limitations and/or targets within the framework of such concentration risks. Credit

exposure and compliance with limitations are reported to the Board of Directors on a quarterly basis. The credit policy also determines the credit authorization hierarchy, and the duties of the business units and the control units relating to assessment, monitoring, measurement and management of the credit risk.

The credit policy of ICC. The credit policy which is approved by the Board of Directors of ICC at least once a year, and states the credit strategy and the rules and limitations applying to the various lines of operation in the company.

STRUCTURE AND ORGANIZATION OF THE CREDIT RISK MANAGEMENT FUNCTIONS

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.

The organizational structure designed for the management of credit risk is composed, as above said, of three control circles.

FIRST LINE OF DEFENSE

- **Business units.** Various processes for the reduction of credit risk are performed within the framework of the business units through the economic and business analysis of applications for credit in order to evaluate the credit risk involved in the operations of the borrower, credit rating and the ongoing monitoring and control over the credit granted as well as the quality of the borrower. Within the framework of such processes, the collateral provided is being assessed and revalued in accordance with the collateral policy and procedures derived there from. The current survey of credit files includes a review of implementation of decisions taken by the credit committees, including documents related to credit transactions (loan agreements, pledge documents, compliance with terms and conditions, availability of current reporting by the customer, etc.).

  The control procedures are performed using irregularity reports and outstanding debt reports at various profiles. The aim of the control is to identify as early as possible defaults in customer accounts and to draw the attention of the business factors to the urgent need to correct any irregularities in their indebtedness.

Credit committees. The Bank has determined a scale of credit authority for managers and the various credit committees, reaching up to the Board of Directors.

Presented below is a list of the Bank’s credit committees, as determined by the Board of Directors:

- The Bank's Board of Directors;
- The credit committee of the Board;
- The central credit committee headed by the Bank's CEO;
- Division level credit committees (corporate and Banking Divisions);
- Local credit committees (in accordance with the business unit to which the customer belongs).

The credit committees discuss and make decisions in matters of credit, both as regards to applications for new credit and as regards to existing indebtedness. Committee discussions include a review of the debtors, including their compliance with credit terms, changes in the profitability of credit, developments in their financial condition, evaluation of the level of exposure to changes in exchange rates, the debtor's credit rating, etc.

The hierarchy regarding the authority to grant credit is in accordance with Proper Conduct of Banking Business Directive No. 311, so that the authority of the Board of Directors for approval of credit shall focus on the approval of transactions which are exceptional in relation to the determined policy.

Presented below are the control units in the various divisions:

- **Credit management unit at the banking division.** The unit manages the corporate credit risk at the banking division vis-à-vis the business functions in the division (business centers and regions), the control, collection and compliance department and various functions at the Bank, such as the accounting group and the risk management group.
  The unit is responsible, among other things, for providing an opinion and for approval of credit by a second signature on credit applications, participation in the various credit committees, responsibility for the drafting of methodologies, procedures and training concerning the corporate credit in the division, quality reasonableness examinations, rating of indebtedness and industry classification of the division customers.
- **The control collection and compliance department at the banking division**, which includes the following units:
  - **The collection department** is responsible for the formation of debt arrangements with borrowers, instigating legal proceedings in respect of debts, as well as the handling and monitoring of debts undergoing legal proceedings and debts which are not subject to legal proceedings.
  - **Credit control department** performs current monitoring and control of accounts of the business sector customers, control over mortgage activities and performance of risk focused controls.
  - **Debt monitoring unit** identifies accounts having "negative characteristics" in order to avoid credit failure, and performs current follow-up of accounts through the "Red Lights" system. In addition, the unit performs in-depth control over consumer credit at all branches of the Bank.
  - **Business control unit** is responsible for performing conclusion drawing investigations, monitoring of exceptional performances of units and industry developments, examination of exogenous effects on the credit portfolio and performance of risk focused controls.
- **The credit risk management department** operates within the framework of the corporate division which serves as the first line of defense for the operations of the corporate division and is responsible for the credit policy and methodologies at the Bank, in cooperation with the Risk Management Group and for the formation of work procedures that would ensure the implementation thereof. The department includes the following units:
  - **Business and operational control department.** Conducts control and supervision over the credit portfolio and the current monitoring of borrowers as a whole, with the view of identifying weaknesses and high risk borrowers and reducing risk exposure beforehand. Among other things, the department conducts a follow-up list of borrowers having negative indications.
  - **Economic department.** Conducts reviews of economic sectors and groups of borrowers, monitors the mix and distribution of the borrowers, divided by the rating of the debt and the quality of the portfolio, develops and maintains the methodology for credit risk management of the single borrower, prepares complex credit applications independently of the business factors, is responsible for preparing operational reviews for the analysis of credit risk and preparing the Bank`s credit exposure document and also responsible for the process of forming the credit policy document in cooperation with the risk management group. It is also engaged in the development of a methodology used as a tool for the analysis of financial reports, repayment ability, reasonableness of credit, value of collateral, and for the absorption thereof by the business factors.
  - **The valuation unit,** the duties of which are to examine, provide an opinion and validate the estimates made of the value of real estate serving the Bank as collateral for credit, while determining the maximum value of assets used as collateral.
  - **Drawing conclusions unit.** Engaged in the drawing of conclusions with respect to credit and to operational risks.
  - **Credit documents control department.** Conducts an examination of borrower portfolios, focusing on the examination of documents in the credit portfolio, their completeness and compliance with the requirements included in the approval of the credit facility.
  - **A unit engaged in the treatment of systems and methodologies** supporting the processes of classification and the allowances in respect of problematic debts.

- **The special credit department** which operates in the corporate division attending to large problematic credit files, with the view of reaching collection arrangements and the repayment of debt.
- **Credit management and operation department at the corporate division.** Engaged in the preparation and updating of follow-up files for the credit committees. The department is responsible for the connection of borrower groups, in accordance with instructions by the Bank of Israel in the matter, and the current monitoring for the avoidance of deviation from the limitations applying to single borrower/groups of borrowers. The department is also responsible for the writing of a part of the credit and collateral procedures at the Bank. Furthermore, the department is responsible for the systems supporting the management of credit products at the Bank.

SECOND LINE OF DEFENSE

- **Credit risk management department.** The duties of the department include:
  - Formation and implementation of policy and methodology documents for the management of credit risks (in cooperation with the business factors), all this in order to define the "risk appetite", to monitor and verify that the credit portfolio is managed in accordance with exposure limitations approved by the Board of Directors;
  - Challenging the credit policy documents of the Bank and its subsidiaries;
  - Analysis of the credit risk profile relating to vulnerable areas at Group level;
  - Development and application of internal models for internal credit rating of Bank customers, in order to quantify credit risk and support decisions;
  - Development of a statistical model for the computation of a group allowance, according to the directive of the Supervisor of Banks concerning defective debts;
  - Evaluation of the credit risk profile of the Bank and of the Group and reporting to the Board of Directors within the framework of the exposure document and the ICAAP report;
  - The development of methodologies for the quantification of stress tests and the examination of their impact on the portfolio of the Bank and of the Group.
- **The credit control unit** evaluates, independently of factors approving the credit, the quality of the specific borrower and of the Bank's credit portfolio. The unit renders an opinion on the quality of borrowers rating and also examines documents of the collaterals in compliance with the Bank's policy and procedures. Furthermore, the unit takes part in the independent review process for the examination of the adequacy of the allowance for credit losses. The sample test includes the Bank's principal borrowers, according to that required under Proper Conduct of Banking Business Directive No. 319. The unit reports to the Bank's Chief Risk Manager.
- **"Second opinion" unit** provides an independent and unattached opinion on credit transactions and in particular on approval of exposures, credit rating determination, classification and allowances. The unit provides independent opinions regarding credit applications and the renewal of credit prior to their being distributed to the credit committees.

The said three units operate within the framework of the risk management group.

THIRD LINE OF DEFENSE

The internal audit performs sample test checks of credit files. In addition, it examines the procedures for approval of the credit granted, and its management and tests whether work procedures are in line with the Bank's procedures. In addition, the internal audit performs across the board audits in respect of credit issues.

CREDIT UNDERWRITING AND MANAGEMENT PROCESSES

The credit underwriting process at the Bank is defined by procedures, credit authority and work processes. The underwriting process is a structured one, which begins with the interface between the customer and the customer relation officer at the Bank, the writing of the application, analysis of the application, stage of approval of the application in accordance with the credit authority, the actual granting of credit, following which the current control of the borrower's file.

An economic and business analysis of the customer is performed as part of the approval of the credit designed to locate and evaluate credit risks inherent in his business. Furthermore, as part of the discussions held by the credit committee, it is being considered whether the approval of the credit reflects acceptance of a reasonable risk on the part of the Bank concurrently with profitability and an appropriate return.

The considerations for the granting of credit to a business customer are mostly based on purpose of credit and repayment ability, financial soundness, business position and quality of collateral provided by the customer. An additional important parameter is the quality of the customer and past experience with him.

The consumer credit at the Bank is characterized by small amounts and a high distribution. The methodology and procedures regarding the examination of credit applications submitted by private customers, is intended to focus more on acquaintance with the customer, on socio-economic parameters and on his financial soundness in addition to the examination of the collateral. Furthermore, a private customer credit scoring system is also used, in order to determine the rating and credit recommendations for existing customers. Decisions on the granting of consumer credit are taken under personal authority or by the relevant credit committee, in accordance with the scope of credit.

Credit underwriting in the mortgage field is performed through a comprehensive examination of the borrower, with emphasis on his solvency, and an examination of the transaction, its purposes and the collateral pledged to secure the credit.

Within this framework, inter alia, the following examinations are performed: a review of the borrower’s business, his income and his expenses; his personal characteristics; his solvency; the overall impression of the consultant with regard to the borrower; the borrower’s credit history; and the borrower’s present rating and his rating history in the Credit Scoring system.

Within the framework of the credit management process at the Bank, current discussions are conducted at the credit committees at an annual frequency in respect of every customer having a credit facility in excess of NIS 400 thousand. Quarterly discussions are being held in respect of customers of a higher complexity or risk levels. Preparation and updating of follow-up files are made prior to each discussion. Developments and principal changes in the business condition of the borrower are reviewed within the framework of the discussion, including compliance of the borrower with the credit terms, changes in the credit profitability, the financial condition of the customer and his indebtedness rating.

The Bank acts according to procedures that define criteria for identifying credits having a problematic potential, in order to ensure the ongoing monitoring of the quality of the credit portfolio, and where required, the classification of problematic debts and/or creation of allowances at the appropriate time. The process of classifying debts as problematic and determination of allowances is made once a quarter by the Bank's Management, and in a manner that would reflect the risk level of the credit portfolio.

The monitoring process of the credit portfolio. The process includes:

- Identifying and locating borrowers having negative indications, by means of the "red light" system and follow-up lists;
- Identification of customers whose financial condition and/or their ability to honor their obligations towards the Bank have deteriorated, and classifying them, in consequence, as "problematic debts" (debts under the definition of "under special mention", "substandard" and "impaired");
- The creation of allowances that reflect the Bank's expected loss at a specific level. In determining the allowances, the Bank's Management relies on information at hand regarding the borrower, such as: financial soundness and/or owner guarantees, scope and quality of the collateral held, estimate of the present value of the future cash flows of the debtor;
- Recording allowances that reflect the Bank's expected loss at a group level. In determining the allowances, the Bank’s management is based upon information at hand regarding the borrower, such as: their credit rating, the classification of the debt, the economic sector, the scope and quality of the collateral and an assessment of the risk environment.

Credit underwriting process at IDB New York. The credit policy states that the underwriting process shall begin with the business units that specialize in a particular segment of customers and act in accordance with specific procedures. The credit risk management unit, which is subject to the chief risk officer in IDB New York, prepares an "opinion" with respect to each credit application, which, among other things, relates to cases where the credit exposure exceeds the various limitations determined by the credit policy.

Evaluation of credit risk at IDB New York is based on an internal rating model. The model is divided into two stages of analytical processes, Borrower Risk Rating and Transaction Risk Adjustment, which determine the rating of the transaction .

Credit underwriting and management processes at ICC. ICC operates according to procedures and work processes which define the underwriting principles, management and monitoring of the credit portfolio. Procedures for the handling of credit and collateral and the relevant information systems are updated on a regular basis with a view of improving credit management.

Evaluation of credit risk at ICC is based on the following statistical models:

- Credit scoring model - a statistical model used for determining new customer scores, according to which the level of credit/type of card is determined.
- Behavior scoring model - a statistical model used for determining customer scores based on their behavior during the period of their relationship with the company.

Every new of evaluation and re-approval of credit facilities is made in accordance with criteria and authority scale defined in the policy document.

CREDIT RISK MEASUREMENT AND REPORTING SYSTEMS

Measurement and reporting systems. The Bank uses several systems supporting credit risk management, as follows:

- Computerized system for the management of credit facilities and for the management of borrower debt, which also enables following up on the volume of the credit file. The system covers all Bank customers whose indebtedness exceeds NIS 400 thousand. The system provides information regarding the status of credit and collateral of the borrower, credit facility, guarantees and financial covenants. The system supports the work of the various credit committees and summarizes customer data in a comprehensive report presented to the various credit committees. In addition, the system supports the process of analyzing financial statements and evaluation of floating pledges.
  Furthermore, the system supports the customer credit risk management on the basis of a model for customer indebtedness rating. This rating model is composed of a questionnaire and includes, among other things, a scoring of a financial statistical model for credit rating, based on an analysis of the borrower's financial statements;
- A computerized system for credit scoring and providing credit recommendations for private customers;
- A computerized system for the management of material collateral. The system documents pledges on real estate assets, fixed assets, securities and floating pledges. The system manages the value of the material collateral securing the debt;
- A computerized system for guarantee management;
- An information system used for assessing the profitability of a single portfolio and of a business unit (under development is the enlargement of the system in respect of assessment of yield from an individual customer);
- A computerized system for the computation of risk assets on a Group level, in accordance with Basel II guidelines.

Credit risk exposure document. In accordance with of the Supervisor of Bank's directives, the Bank prepares in each quarter a credit risk exposure document relating to all credit exposure, including: the volume and composition of the Group's credit portfolio, concentration of the portfolio, linkage segments, segments of operation, economic sectors, large borrowers and large borrower groups. The document also examines the quality of the credit portfolio according to the distribution of the borrowers' credit rating, the volume of the troubled debts and the credit loss expenses. Furthermore, the document relates to compliance with restrictions set by the Supervisor of Banks and the internal restrictions set by the Bank and by the Group for control and monitoring purposes. The exposure document is presented to the Bank's Board of Directors.

CREDIT RISK MITIGATION

General qualitative disclosure regarding the credit risk mitigation. According to the Basel II guidelines, banking corporations may obtain relief from capital requirements with respect to usage of methods of credit risks mitigation (CRM), subject to legal certainty. Legal certainty requires, among other things, that all documents securing a transaction, setoff documents, guarantees, etc. shall be binding on all parties involved and may be legally enforceable in all relevant judiciary fields.

Collateral management and control processes. The Bank's credit policy includes detailed rules on the subject of collateral, including management and control processes thereof, performed by the different control units, as well as in the Legal Advisory Group, as mentioned above.

The mitigation of credit risk relating to different entities. The Bank's policy is to enter into transactions in financial derivatives only with entities with which an ISDA agreement had been signed. This agreement leads to a mitigation in credit risk by permitting the Netting of liabilities and mutual demands stemming from over the counter derivative transactions in cases of insolvency of the counterparty.

The credit risk applying to derivatives is mitigated by means of collateral. The transfer of collateral in agreements with banks engaged in significant derivative activity is regularized by Annex CSA (Credit Support Annex) to the ISDA agreement. Deviations in this matter are brought before the Board of Directors for approval.

IDB New York transacts business only with entities with which ISDA agreements had been signed.

MDB applies off-balance sheet netting with respect to transactions in derivative instruments with entities with which netting agreements had been signed that comply with ISDA rules. Most entities active in derivative instrument transactions have signed the ISDA agreement.

The mitigation of clearing risks. The clearing of derivative transactions with foreign banks and financial institutions constitutes the main source for the Bank's exposure to clearing risks. In order to hedge the clearing risk inherent in these transactions, the Bank uses the services of the CLS - Continuous Linked Settlement system where the clearing process is executed net in the various currencies, simultaneously.

In order to mitigate clearing risks, the Bank, where possible, performs the clearing of dual transactions in the principal currencies with banks, using CLS.

MITIGATING THE RISK IN RESPECT OF CREDIT CONCENTRATION

Concentration risk is the risk emanating from the lack of diversification of the credit portfolio. This risk is made up of two main categories: (1) Risk emanating from a large volume of credit granted to a specific borrower and/or several borrowers who belong to the same group of borrowers; (2) Risk emanating from a large volume of credit granted to borrowers belonging to a certain economic sector or to a certain geographical area.

Spreading of the credit risk is reached, among other things, by the spreading of the credit portfolio over a large number of borrowers/groups of borrowers in various economic sectors and industries.

Mitigating the credit risk in respect of the concentration of borrowers/groups of borrowers. The Bank performs an ongoing monitoring of the situation of large borrowers/ groups of borrowers with indebtedness exceeding 10% of the Bank's equity) and compliance with the Bank of Israel limitations and within internal limitations determined by the Bank. In addition, the Bank conducts surveys and holds periodic discussions with respect to the borrower groups, with a view of evaluating the credit risk at Group level. The Bank complies with the Bank of Israel limitations and with internal limitations in respect of a single borrower and in respect of the large borrower groups.

Mitigating the credit risk in respect of concentration according to economic sectors. The Bank performs industry surveys of various economic sectors as well as current surveys of the situation of the economic sectors in Israel in order to evaluate the credit risk at the industry level. Within the framework of the individual application for credit, an analysis of the economic sector of the borrower is performed and it is examined whether the application is in line with the credit policy according to economic sectors. The Bank complies with the Bank of Israel limitations and with internal limitations in respect of economic sectors, including the specific limitations regarding the real-estate sector.

Mitigating credit risk in respect of holding companies and credit granted for the acquisition of means of control. The Group, and mostly the Bank, have granted credit to holding companies and to finance the acquisition of means of control. The principal repayment ability of the loan is based upon the cash flows of the active investee companies, which is transferred to the holding companies by way of dividends, management fees and repayment of shareholders' loans.

Due to the high dependence of the repayment ability of the investee companies, held directly or indirectly by the holding company, on the quality of the collateral, the credit granted to holding companies for the acquisition of means of control is regarded as an area having a high risk profile.

In view of this risk, as from 2013, the credit policy outlines a three-yearly plan for continuing the reduction of exposure to holding companies and to means of control, in accordance with the Bank's risk appetite. As of now, the Bank has attained the reduction targets in accordance with the plan. It should be noted, that the credit policy includes a restriction on the volume of exposure to holding companies and to means of control. The restriction is set in absolute terms (based on the existing framework) and in relative terms to capital and to the overall credit portfolio.

A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 4, and the information included therein is presented herewith by way of reference.

ADDITIONAL DISCLOSURES

DESCRIPTION OF THE APPROACH AND STATISTICAL METHODS FOR THE CREATION OF SPECIFIC AND GENERAL ALLOWANCES

As part of the implementation of the instruction regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank has developed methodologies and statistical tools for the determination of allowances for credit losses. The Bank intends to modify the implemented methodologies and tools, as required in view of the draft instruction regarding "Group allowance for credit losses" (see Note 1 E (3) to the financial statements).

QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK

Segmentation of credit risk according to main credit exposure types

Gross credit risk exposure

	December 31, 2013	Average in 2013(1)	December 31, 2012	Average in 2012(1)
	in NIS millions			
Credit	149,885	149,895	150,718	153,930
Bonds	35,964	37,324	35,874	34,878
Others(2)	8,282	8,054	7,450	7,567
Guarantees and other liabilities on account of clients(3)	57,706	58,649	59,891	60,050
Transactions in derivative financial instruments(4)	1,875	1,819	1,567	1,721
Total	**253,712**	**255,741**	**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).

DISCLOSURE AS TO CREDIT FILES MANAGED ACCORDING TO THE STANDARD APPROACH

For the purpose of averaging out exposure risk, the Bank and its banking subsidiaries in Israel use international rating data issued by Moody's - the international rating agency. IDB New York uses rating data issued by the international rating agencies - Moody's, Fitch and S&P.
The Group acts according to the standard mapping and with the framework published by the Supervisor of Banks.

GENERAL DISCLOSURE REGARDING EXPOSURE RELATED TO CREDIT RISK OF A COUNTERPARTY

Over the counter derivatives. 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 Bank's policy as regards the management of counterparty credit risk is based on the counterparty credit risk management policy document, which is brought for approval of the Board of Directors at least once every two years. The policy document includes, among other things, principles for the identification, measurement and evaluation of the risk, requirements for the determination of combined limitations and for exposure reporting as well as definition of responsibilities and authorizations.
Exposure of the Group to counterparty credit risk arises both with respect to banks and international financial institutions and with respect to customers.
The framework of exposure to international financial institutions is approved at Group level on the basis of an internal model. The approved framework is allocated by the Bank among the subsidiaries in the Group.
Activity in derivatives is conditional on the prior approval of the credit facility that determines limitations on counterparty exposure. The framework of exposure to customers is approved in accordance with credit approval authorizations.
The monitoring of counterparty credit risk exposure is performed as follows:

- Exposure to foreign banks and financial institutions - the back office unit at the finance division performs, a comparison of actual exposure to the approved framework on a daily basis;
- Exposure to large customers and/or those having complex activities - The middle office unit at the finance division performs a comparison of actual exposure to the approved framework, on a daily basis, and if required, at higher frequency, in accordance with market conditions. Evaluation of the exposure includes the use of stress tests and of internal models designed for this purpose. As part of management and control over the utilization of the exposure framework, the information system produces a daily irregularity report, which, among other things, includes a list of customers whose actual utilization of the exposure framework is equal or exceeds 85%. The purpose of this report is to give warning to the responsible business factor as to the high utilization rate.

In addition, the Bank determined a set of internal limitations imposed on combined credit exposure of counterparties, such as: combined limitations according to currencies. These limitations have, among other things, been designed to provide response to market liquidity risks, stemming from a possible difficulty in operating in large volumes in markets having a low trading activity.
The methods used by the Bank for counterparty credit risk reduction, include:

- Daily monitoring of the customer's collateral situation, and where needed, a demand for additional collateral;
- A contractual "stop loss" clause - enabling the Bank to enforce the closing of a customer position, in cases where a deviation in loss terms from the "stop loss" amount determined for the customer exists;
- The signing of ISDA agreements and CSA annexes (for explanations regarding "ISDA agreement" and "CSA annex", see "Reduction of credit risk" above).

The method for determining counterparty credit exposure limitations. For regulatory reporting purposes the Group uses the "present exposure method", according to which the present cost of replacement is computed by the revaluation of agreements to market prices together with an "Add-On" coefficient, in order to reflect the future potential exposure over the remaining life time of the agreement. The future potential exposure, computed on the basis of the notional principal sum of the total counterparty file, is in accordance with the type of product and the remaining average period to maturity, according to a coefficient table included in the Basel II guidelines.

For counterparty credit risk exposure management purposes, the Group uses the "customer exposure model", based on the computation of exposure in equal value credit terms that includes a Mark to Market valuation of transactions together with the future potential exposure.

From time to time, the Bank makes changes in the future exposure coefficients used for the assessment of contemporary credit risk exposure regarding derivative financial instruments, this in the light of developments in market conditions.

Policy for the protection of collateral, its valuation and management. According to the Bank's policy, the financial collateral is valued on a daily basis. The rate of reliance on such collateral is determined according to the risk volatility of its market price over time, and are secured in the policy document approved by the Board of Directors.

The effect of the amount of collateral that would have to be provided by the Bank in case of a reduction of its credit rating. Some of the collateral agreements to which the Bank is a party within the framework of the ISDA agreements, state that the threshold amount and the minimum transfer amount shall be reduced in the event that the Bank's credit rating would be reduced. Accordingly, in such cases a situation may arise where the Bank will be required to provide the foreign bank with collateral in higher amounts (in case of profit on derivatives to the foreign bank).

A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 5, and the information included therein is presented herewith by way of reference.

ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

Credit risks in financial instruments. The Bank's operations in derivative financial instruments involve special risk factors, including credit risk. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein. For further details, see above "General disclosure regarding exposure to credit risk of counterparty" under "Credit risk management".

Note 20 to the 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. Presented below are further details.

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.

Securities financing transactions (SFT). The Bank has customers who are active on the capital market and who act according to complex strategies and carry out transactions that involve the borrowing and lending of securities, Margin Lending transactions and operations in marketable and non-marketable derivatives.

The monitoring of these operations is performed by means of computer systems that measure in real time the requirement for collateral with respect to the activity facilities and the collateral actually existing.

The credit policy includes limitations on the total volume of customer activity and limitations on the volume of holdings of specific securities or groups of securities.

REPO transactions. IDB New York conducts "reverse repo" transactions as part of its asset and liability management. Such transactions are being made with financial institutions having an "A" and above credit rating, with whom ICMA agreements have been signed regularizing the manner in which such transactions are executed.

SECURITIZATION EXPOSURE

IDB New York invests in several types of securitized securities, in marketable mortgage backed securities (CMBS), in securities of the "Trust Preferred CDO" type and residential mortgage backed securities (RMBS). IDB New York is an investor in securitized securities and is not the issuer of any securitized securities.

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 3 to the financial statements and "Investment in asset backed securities" under "Developments of assets and liabilities" above.
A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 6, and the information included therein is presented herewith by way of reference.

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 relaxation of the crisis in the Eurozone continued during the year as well as an improvement in growth rates of most of the central countries and peripheral countries of the Eurozone. As a result thereof, the Eurozone got out of the crisis in the second quarter of 2013 and in the fourth quarter the Eurozone grew at a quarterly rate of 0.3%, following a positive growth in all the Eurozone countries. Concurrently, confidence indices in the Eurozone improved and they now indicate the continued expansion of most of the economies. The inflationary environment decreased during the year, showing in total for 2013 an annual rate of 0.8%. As a result of the decline in inflation, the central bank lowered the Eurozone interest rate to a level of 0.25%.
In addition, the credit rating agency Moody's raised the credit rating of Ireland to "Baa3".
In accordance with the Bank's policy, exposure of the Group to financial institutions in the PIIGS (Portugal, Ireland, Italy, Greece and Spain) countries are at a negligible level. 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. Moreover, the business divisions perform on an ongoing basis, a comprehensive examination with respect to customers who might be adversely affected by the crisis in Europe.
As seen from Schedule "F" to the Management Review below regarding "Exposure to foreign countries", the direct exposure of the Group to the said country is not material and in a downward trend. However, it is not possible at this stage to evaluate the indirect effect, particularly if a global crisis develops as a result of the crisis in the said countries.
The manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:

- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is more strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and modified to the lessons of the crisis;
- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Western Europe, having a rating of "A" at the least;
- The Bank has reduced the volume of deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA agreement with every financial institution with which the Bank enters into transactions of this kind. This process was performed in respect of the vast majority of financial institutions with which the Bank transacts business in financial derivatives;

- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;
- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;
- A methodical and close management with upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Group basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Corporate Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Finance Division is responsible;
- The Bank manages exposure to financial institutions in South America through IDB New York, which specializes in emerging markets.

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 75% of the exposure as of December 31, 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 December 31, 2013, include, inter-alia, the United States, Great Britain, Germany and Switzerland.

In 2013, no loss on impairment of securities was recorded in respect of exposure to financial institutions.

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 December 31, 2013		
Present credit exposure to foreign financial institutions[(6)]			
External credit rating[(7)]			
AAA to AA-	2,228	269	2,497
A+ to A-	5,569	167	5,736
BBB+ to BBB-	2,107	7	2,114
BB+ to B-	358	8	366
Not rated[(8)]	196	105	301
Total present credit exposure to foreign financial institutions	**10,458**	**556**	**11,014**
Of which credit exposure to foreign financial institutions:			
In the USA	3,150	45	3,195
Balance of problematic bonds	176	-	176
	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	*356	-	356

* Reclassified in respect of inclusion of bonds under special mention.

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 20 to the 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 3 to the financial statements).

(7) According to Moody's rating, and in its absence, 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 December 31, 2013 and 2012 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign financial institutions (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on 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 283 million and NIS 251 million, respectively.

CREDIT RISK IN HOUSING LOANS

General. On May 15, 2011, the Supervisor of Banks issued a Directive, according to which banking corporations are required to include in their annual and quarterly financial reports disclosure regarding credit risk in respect of housing loans, and the action taken by them within the framework of management of such risk. In addition, the disclosure is to include quantitative data regarding exposure to housing credit and regarding various characteristics indicating the quality of the housing credit portfolio of the banking corporation.

In June 2013, the Supervisor of Bank published amendments to the reporting to the public instructions, intended to integrate therein certain letters issued by the Supervisor of Banks in recent years. These amendments apply to the 2013 annual reports and thereafter, including the updating of the disclosure requirements in respect of housing loans.

The activity of granting housing loans by the Bank is presented with the activity done by Mercantile Discount Bank (hereinafter will be 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 demand.

The rise recorded in the volume of housing loans granted (including a rise in the average amount of loans) exceeded the economic growth rates and the rates of increase in the standard of living and in income of households. Therefore, certain concerns arise that these developments might adversely effect the quality of the housing credit portfolio and increase the exposure of the banking industry to credit risk.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, bridging loans, and geographical distribution. Furthermore, cross limits have been determined in respect of a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Furthermore, mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate) - on the repayment ability of the borrower.

  Reduction in the volume of credit granted in loan lanes where the interest rates changes at high frequency (prime and linked variable interest from one to five years), in accordance with the restriction determined by the Supervisor of banks;
- Determination of exposure policy in respect of special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank’s exposure to credit risk - as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI), including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Implementation of a credit rating model for mortgages.

The volume of the Group’s housing loan portfolio as of December 31, 2013, amounted to NIS 20,401 million (December 31, 2012 - NIS 20,092 million).

Following are data regarding certain risk characteristics of the Group's housing loans portfolio:

	December	
	2013	2012
	%	%
Rate of housing loans financing over 75% of the value of the Property	9.6	13.0
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	17.2	18.2
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	65.2	64.3

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

For additional details, including details regarding the mortgage portfolio of the Discount Group and the risks inherent therein, see above "Mortgage activity" under "Further details as to activity in certain products".

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

The banking corporations are required to include in their reports, information regarding the existing credit risk at the reporting date with respect to groups of borrowers, the net indebtedness of whom, on a consolidated basis, after the permitted deductions according to Section 5 of Proper Conduct of Banking Business Directive No. 313, exceeds 15% of the equity of the banking corporation.
Until March 31, 2013, the Discount Group had one group of borrowers the indebtedness of which is approx. 15% of the Bank's equity. Since then and until December 31, 2013, the indebtedness of the Group has declined significantly to below the limit determined by the Supervisor of Banks, 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 "E" to the Management Review.

DEFINITION OF PROBLEMATIC DEBTS

The identification and classification of debts as "problematic debts" is performed according to classifications determined by the Public Reporting Directives and according to criteria specified in this Directive: "impaired debts", "substandard debts" and "debts under special mention".
For details regarding credit risk and its components relating to problematic debts, see above "Credit granted to the public" under "Developments of assets and liabilities" and Note 4 to the financial statements.

CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

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.
Proper Conduct of Banking Business Directives determined restrictions regarding the finance of acquisition of means of control, which the Bank abides by.
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 Bank'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.
Market risks are presented in this review on a Group basis, including the Bank, Mercantile Discount Bank, IDB New York, IDB (Swiss) Bank, ICC and BLD, the severance pay fund for the Bank's employees (hereunder in this section: "the Group")
During 2012, the Supervisor of Banks issued an amendment to Instruction No. 310 in the matter of risk management, following which, Instruction No. 339 in the matter of market and interest risk management has also been amended, and in particular, the sections detailing the risk management principles, which are included in Proper Conduct of Banking Business Directive No. 310, have been cancelled, and it has been determined that the market risk management unit will now be subject to the Chief Risk Officer.
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).

STRATEGY AND POLICY

The Bank has three policy documents relating to market risk that had been approved by the Board of Directors.
Market risk management policy. The market risk policy is intended to define the framework of financial risk management in the Bank's current activity. The policy document determined the principles for the Group policy and the organs responsible for the implementation of market risk management tasks.
Determining the Group risk appetite in respect of the market risk of the Group, includes, among other things, group limitations in terms of VaR, in terms of exposure to base risks, in terms of the maximum impairment in economic value under stress tests and a parallel change in the interest graphs.
Financial management policy defines the principles of market risk management for the first line of defense (risk acceptance), including reference to the tasks of the Finance Division, the responsibility of the functionaries involved in market risk management processes and their authority. The current management processes at the Bank are conducted subject to a

supplementary document – document issued by the Head of the Finance Division, which defines specific procedures and principally an additional layout of limitations enabling a more conservative management of exposure to market risks.

Nostro investments management policy determines principles and rules for the management of the Bank's nostro portfolio, with all its components, control and risk management processes involved in the operation of the nostro portfolio management unit.

During the year 2013, the Board of Directors formed and approved a group credit risk appetite document relating to securities operations.

Market risk management policy of subsidiary companies. The boards of directors of the banking subsidiaries have determined policies regarding the maximum exposure to market risks, on the basis of the principles of the Group policy, as detailed in the market risk management policy document. Market risk management and measurement methodologies were modified to those applied by the Bank, taking into consideration the specific characteristics of operations of each subsidiary.

The current management of market risks is conducted separately at the Bank and at each of its main banking subsidiaries. Notwithstanding, the Bank frequently reviews, the market risk appetite of the Bank, its banking subsidiaries and of the Group as a whole. Reports regarding the Group's compliance with the limitations on exposure to market risks are presented before the Board of Directors within the framework of the risk document.

Main changes in exposure policy and risk management procedures. During 2013, the Board of Directors approved changes in the market risk appetite at Group level, and in particular:

- The setting of limitations on exposure to market risks in stress tests, as seen from the accounting aspect, which reflect exposure of the core capital ratio to changes set in the various scenarios. The determined limitations take into account the regulatory limitations;
- A change in the structure of limitations on the erosion of equity's economic value in stress tests (see below "Analysis of losses in stress tests");
- Reducing of the limitations of exposure to linkage base risk.

STRUCTURE AND PROCESSES

Within the framework of the processes conducted in the different defense lines, the following should be mentioned:

First line of defense. The Finance Division coordinates the Bank's overall financial activity that includes both the business factors (those who take the risk) and the back office and middle office (the control factors).

Second line of defense. Includes the market and liquidity risks management unit which operates within the framework of the risk management department, the duties of which are:

- Reporting to the Board of Directors and the Management regarding market risk, while performing complementary and independent analysis of the calculations made by the first line of defense, including market risk management processes at the Bank and at the principal subsidiaries;
- Verifying that the exposure limitations are consistent with the limitations defined by the risk appetite declaration and that they include all the market risk factors existing in the ordinary course of business and in stress tests and examination of their effectiveness;
- Development of models and appropriate tools for the evaluation and management of exposure to market risk;
- Computation of capital allocation to market risk;
- Assessment of the effect of stress tests on the Bank`s equity, both from the accounting aspect and the economic aspect;
- Modifying the risk management policy to regulatory instructions, in accordance with the decision of the Board of Directors;
- Review of the effectiveness of the market and liquidity risks management processes.

Current management and supervision. Current management and supervision in the area of market risks management are performed, among others, by the following committees:

- **Asset and liability management committee (ALM committee).** The committee is headed by the President & CEO and meets once a month. The role of the committee is to determine the Bank's assets and liabilities management policy, to determine exposure limits for market and liquidity risks based on a situation evaluation of expected developments in the market and subject to limitations determined by the Board of Directors and to study the profitability of the various activities as well as abiding by the capital adequacy targets. The committee acts also as a Group committee, which meets from time to time;

- **The financial forum** is an internal committee of the finance division, headed by the head of the finance division. The forum meets on a weekly basis for the purpose of evaluating current developments in the markets and monitoring the implementation of guidelines issued by the ALM committee. The forum is responsible for the current management of the Bank's linkage base and interest rate exposure, within the framework of the targets outlined by the assets and liabilities management committee;
- **Stress test and Group market risk methodology Forum** meets at quarterly intervals with the participation of representatives of the Bank and of the subsidiaries having a material exposure to market risk. The Forum is aimed at coordinating the management processes of market and liquidity risks, including the current management of exposure to risk, the definition of methodologies for the implementation of tools used to manage such exposure, etc.

PROCESSES

The Bank applies the necessary steps for measuring and assessing the overall exposure of the Group to risks, as well as to absorb the group management concept at the Bank and at the Group’s companies.
The Bank’s procedures requires those who accept the risk and the control factors to report of any exceptional events, e.g. loss exceeding the predetermined limit, deviations from limitations and so forth. The Head of the Finance Division determines how these deviations should be dealt with as well as the reaction to exceptional developments in the various markets.
In addition, internal limitations determined by the Head of the Finance Division, are monitored on an ongoing basis.

MEASUREMENT AND REPORTING

Measurement of exposure to market and liquidity risks, including the calculation of the various risk assessments is performed at the Bank on a weekly basis, using the "Riskpro" system. The system is used as a basis for financial data, which contains the financial information required for the purpose of risk management, and which refers to the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted by the system, regarding the overall operations at the Bank and Group levels, regarding operations/files. Likewise, additional risk indices and interest rate exposure are computed and measured (it should be noted that the system is also used for fair value measurement for the purpose of the accounting report).
This system is also used by MDB in computing its exposure to market and liquidity risks.
IDB New York. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) through an independent risk management system (V Ten) providing a computation of risk assessments at monthly intervals. The risk management controls the exposure to market and liquidity risks and performs independent calculations of stress tests. A replacement of the system by a more advanced system (SUNGARD) is planned for 2014.

RISK MITIGATION

Hedging of market risk policy. The Bank's policy and its banking subsidiaries as regards market risks management is based on the management of exposure to market risks, within the framework of quantity active limitations determined with respect to such exposures while defining the manner of operation and protecting it.
The means used for compliance with the determined limitations include:

- The purchase and sale of marketable instruments in all linkage segments (mainly securities for various periods);

- Investment in and raising of non-marketable financial instruments (mainly deposits by banks and large customers);
- Activity in derivative financial instruments with banks and large customers.

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. Exposure to linkage base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency).

The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage segments, which differ from the accounting positions which may be seen in Note 17 to the financial statements.

The differences between these positions might be divided into the following groups:

(a) Certain economic adjustments to the managed position: Non-inclusion of profits or losses stemming from changes in market value of foreign currency bonds or CPI linked bonds (in relation to the purchase value together with accumulated interest); the addition of fixed assets denominated in foreign currency as a financial asset; Transfer of non performing impaired debts in foreign currency to the shekel linked segment.

(b) Reference to subsidiary companies: the linkage balance sheet is on a consolidated basis and includes all subsidiaries, while the managed position includes the managed positions of the main subsidiaries only; The exposure to foreign currency in the severance pay fund for Bank employees (BLD) is not included in the linkage balance sheet, due to the fact that only the difference between the severance pay provision and the value of the deposits with the fund is presented in the Bank's balance sheet. On the other hand, it is included in the managed position.

(c) Timing of position computation: the managed position is computed on the basis of the capital data as of the end of the previous quarter together with changes occurring during the last quarter until date of the computation. These changes are based on data that is not final as it is known at date of computation. On the other hand, the position in the linkage balance sheet is computed on the basis of audited data used in the framework of the financial statements.

The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.

Following is the actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity):

		2013				2012			
		Range of exposure							
Segment	Limitation	Year end	from	to	average	Year end	from	to	average
CPI linked	50%-(25%)	8.5%	4.5%	29.0%	19.3%	26.3%	18.0%	28.0%	21.5%
Foreign currency	15%-40%	25.1%	25.1%	28.1%	26.8%	27.5%	26.7%	28.6%	27.7%

The table shows the limitations after their update in 2013 (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 equity as of December 31, 2013.

	The Bank's capital sensitivity of changes in exchange rates			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	182	89	(97)	(200)
EUR	(6)	(5)	7	17
Other Foreign Currencies	(4)	(2)	-	-

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks. It should be noted that the cancellation of the hedge on the investment in IDB New York, decreased the sensitivity of the ratio of capital to risk assets to changes in exchange rate.

(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. Management of interest risk exposure is performed for each of the linkage segments separately.

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

Fair value of financial instruments. Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of future cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date.

Discounting the future cash flows was made, where possible, by discount rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity, neither do they include the tax effect.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 21 to the financial statements.

Fair value of the Bank and its consolidated 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					
	December 31, 2013					
Financial assets[1]	109,194	25,682	47,094	4,369	3,918	190,257
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	92,840	3,179	53,175	18,279	10,589	178,062
Financial liabilities[1]	(98,157)	(21,860)	(49,985)	(8,616)	(4,913)	(183,531)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(100,128)	(6,878)	(48,138)	(14,117)	(9,598)	(178,859)
Net fair value of financial instruments	**3,749**	**123**	**2,146**	**(85)**	**(4)**	**5,929**
	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**

For footnotes, see next page.

Effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its consolidated 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 %
	December 31, 2013								
Immediate parallel increase of 1%	3,391	30	1,543	(76)	(2)	-	4,886	(1,043)	(18%)
Immediate parallel increase of 0.1%	3,688	115	2,090	(84)	(4)	-	5,805	(124)	(2%)
Immediate parallel decrease of 1%	4,111	229	2,609	(87)	(5)	-	6,857	928	16%
	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 21 to the 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.

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 21 c.
The decline in the net fair value, in CPI-linked shekels, against the increase in the net fair value, in non-linked shekels, derives from the active management of the active capital and the decision to move it in accordance with the anticipated returns in the different linkage segments.

C. Data used for the management of interest rate risk. The data presented in item "B" above, 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 "D" to the Management Review, hereunder.
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 economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates. Among others, taken into consideration are the following:
- Various future exposure which do not match the requirements for inclusion in the accounting computation approaches;
- Prices reflecting the alternative cost as seen by the Bank according to changes in market prices (and not in relation to changes in the credit risk of cash flows);
- Balances that have an economic effect that differs from their accounting effect.

This additional data leads to an assessment of the economic value and to assessments of the exposure to interest rate changes, which differ from the parallel assessments derived from the accounting data.
The principal differences between the computation of exposure according to accounting fair value and economic exposure (BPV) are as follows:
(a) The distribution of credit current account balances is made only in computing the economic exposure;
(b) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the Bank's transfer prices and include only the risk to the Bank;

(c) The difference in population and the allocation to the linkage segments, mostly: non performing impaired debt (at its accounting fair value remains in the segment in which it was originally included, while in the economic fair value it is classified to the non-linked segment), optionally linked deposits (at accounting fair value are presented in the principal segment, while at economic fair value they are analyzed according to their basic financial components, each component being allocated to its respective linkage segment).

Following are details of the effect of hypothetical changes in interest rates of 100 base 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		
			December 31, 2013		
An increase of 100BP in interest rates	(138)	(48)	(212)	9	(389)
A decrease of 100BP in interest rates	158	53	107	(8)	310
			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 limitation determined by the Board for interest risk exposure in the various linkage segments relates to the maximum damage to economic capital resulting from concurrent movements in the yield curve of 1% in each segment.
The limit on the group’s exposure was set to a change of 1% in the interest graphs at 7.5% of the equity. This, in addition to the limits determined by the Bank and banking subsidiaries on this risk assessor. In 2013, the Bank and the Group complied with the determined exposure limits.
In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.
Measurement of the risk at the Bank is performed in weekly intervals and exposure estimates at Group level are being monitored on a monthly basis.
The measurement at the banking subsidiaries is carried out using a similar methodology and at a frequency of at least once a month. Exposure to interest risk is managed individually by each of the companies by means of the entities authorized for this purpose.

D. The characteristics of interest rate risk with respect to the banking book

The banking book contains most of the interest rate risks of the Group and includes the Bank's activity in the granting of credit, in the purchase of securities and in attracting deposits and the issuance of capital notes. Such activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk propensity.
The Group's banking book in Israel is directed towards risking exposure to Shekel and CPI linked interest rate changes, while the banking book of the foreign subsidiaries includes exposure to foreign currency interest rate risks (primarily U.S. dollar interest rate), including the risk of early repayment of the Bank's assets and liabilities.

Following are details of the effect of hypothetical changes of 100 base 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				
	December 31, 2013				
An increase of 100BP in interest rates	(138)	(34)	(205)	7	(369)
A decrease of 100BP in interest rates	158	38	99	(4)	290
	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)

No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

The following is a summary of the Bank's and its consolidated subsidiaries' exposure to fluctuations in interest rates, including the internal rate of return (IRR) and the average maturity, as per the various linkage segments including assumptions regarding early repayments:

	As at December 31, 2013			As at December 31, 2012		
	Shekels			Shekels		
	Non-linked	CPI linked	Foreign currency and foreign currency linked	Non-linked	CPI linked	Foreign currency and foreign currency linked
	In NIS millions					
Total Assets	202,034	28,861	137,424	188,296	28,693	128,483
Total Liabilities	198,285	28,738	135,367	187,149	26,739	126,347
Average maturity (years):						
Assets	0.93	3.35	0.95	0.96	3.70	0.84
Liabilities	0.76	3.10	0.61	0.76	3.79	0.66
Average maturity gap	**0.17**	**0.25**	**0.34**	**0.20**	**(0.09)**	**0.18**
IRR gap	**2.51**	**1.11**	**2.18**	**2.70**	**0.94**	**1.87**

(3) THE VALUE AT RISK (VaR)

Assessment of this risk served as one of the central tools for the management of market risk. At the present time, it is in secondary place where the administrative attitude towards it is concerned, in addition to limitations in its application. However, presently, the importance of sensitivity tests and stress tests is being emphasized much more in the current management of market risk. Due to these factors, it has been decided to discontinue the presentation of VaR data within the framework of this Chapter, starting with the 2013 annual report.

Assessment of the group exposure to market risk using the VaR model, is performed at monthly intervals, as required by Proper Conduct of Banking Business Directive No. 339. The Bank has begun preparations for the integration of the VaR model also in respect of trading operations.

The nature and scope of the risk reporting and measurement systems. The VaR is computed according to a parametric model based on the historical behavior of various market risk factors in the period preceding the computation (one year), assuming normal distribution of the changes in the parameters.

The Board of Directors determined a limitation according to which the VaR of the Group's portfolio (for a range of ten days and at a precision level of 99%) should not exceed 4% of the equity. No deviations from this limitation were recorded in 2013.

The VaR does not assess a loss that may occur in stress situations in the market and its results should not be treated as a real loss barrier, which the Group might sustain in extreme scenarios. A more appropriate assessment may be obtained through examination of the potential loss in a stress test (as detailed below).

(4) LOSS ANALYSIS IN EXTREME SCENARIOS (Stress Tests)

As stated above, the measurement of the group exposure under various scenarios was emphasized this year, including stress tests. Stress situations are generally characterized by significant changes in interest rates, exchange rates, or in exceptional volatility in these factors, which deviate from normal historic behavior. The risk management process is intended, inter alia, to protect the Bank from an extreme loss that may be incurred as a result of such events.

Stress tests enable the examination of the possible effect on exposure of various scenarios, by determining the level of changes in risk factors deriving from such scenarios.

Exposure of the Bank and of the principal subsidiaries to market risks is being examined both from the economic aspect and the accounting aspect in a wide range of over ten stress tests, that include changes in interest rate curves (parallel and not parallel), changes in major currency exchange rates and in the CPI and changes in the spreads of investments in corporate bonds.

Following are details of the main stress scenarios implemented:

- Scenario of deterioration in the security situation in Israel;
- Scenario of a financial crisis in the U.S.A.;
- Scenario of a global rise in prices;
- Scenario of a crisis in emerging markets;
- A global crisis scenario originating in the European government debts crisis;
- A scenario for increase in returns in the domestic market and in the U.S..

In addition, technical and historical scenarios are also activated.

At the beginning of 2013, the Bank's Board of Directors decided on a change in the manner of monitoring of the Group's exposure in terms of erosion of the economic value in stress situations. The new monitoring system defines a limitation layout related to the reasonableness of the scenarios, and based on macro-economic evaluations.

In addition, limitations have been defined for exposure to market risks at stress tests from the accounting aspect. The Group has not deviated from the determined limitations.

(5) THE NII (NET INTEREST INCOME) MODEL AND THE EaR (Earning at Risk) MODEL

The EaR index measures the sensitivity of the anticipated financing income to changes in market returns. The financing income forecast is compiled on the basis of the NII model. In addition to testing the sensitivity of the economic value of the equity attributed to the Bank's shareholders, the effect of changes in interest rates on financing income is also being examined. This examination is implemented through dynamic simulation of the net interest income for the coming year, and is intended to test the impact of various strategies for asset and liability management on the Bank's future interest income.

The EaR model is the principal model for the management of interest rate risks at IDB New York and at IDB (Swiss).

(6) BEHAVIORAL ASSUMPTIONS APPLIED IN THE ASSESSMENT OF INTEREST RISKS

Creditory current accounts spread model. For purposes of assessing the exposure to interest risks, the Bank assumes that a significant part of creditory current account balances is not expected to be withdrawn immediately ("the stable part") and therefore it may be spread over a number of years. Examination of customer habits over a period of time has indicated that non-

interest bearing current accounts show a steady outstanding credit balance over a length of time. Therefore, in calculating the Bank's exposure to interest risk, the steady part is treated as being a long-term liability. From time to time, in accordance with the results of examining the changes in the steady part, a decision is taken as to the spreading thereof.
Recently, the Bank has updated the manner of treatment of the steady part given a low interest environment. Any change in the methodology of computation is brought for approval of the ALM committee in consultation with the Chief Risk Officer. Material changes in the results of the computation are reported to the risk management committee and to the Board of Directors, within the framework of the risk document.
Models for quantifying early repayment of assets risk - Prepayment Risk. The Group operates several models forecasting early repayments in its asset portfolio. The Bank manages the early repayment risk of mortgage loans. The model is based upon historical data pertaining to the early repayment of mortgage loans.
The subsidiary IDB New York makes use of models accepted in the U.S. for the forecasting of early repayment rates in the mortgage backed asset portfolio held by it.

(7) THE STANDARDIZED 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 standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allocation of capital to market risks is done as follows:
- Interest rate and equity risk - allocation in respect of the portfolios managed at the Bank for trading purposes, including the overall activity of the dealing room. Computation of the interest rate risk is performed in accordance with the "average period to maturity" method;
- Foreign exchange rate risk - allocation in respect of the Bank's overall activity;
- Options risk - allocation in respect of the Bank’s overall activity, including embedded options. The computation is performed according to the "Delta plus" method.

Following are details of capital allocation to market risks according to the standard approach (Basel II guidelines):

	Capital allocation as of	
	December 31, 2013	December 31, 2012
	In NIS millions	
The Bank:		
Interest rate risk*	171	146
Foreign exchange rate risk	32	33
Share risk	2	-
Option risk	28	22
Total for the Banking Group	**233**	**201**
Allocation in risk asset terms	2,588	2,238

* Including the specific risk in the amount of NIS 8.6 million and NIS 2.4 million in the Year 2013 and Year 2012, respectively.

The allocation to market risks in risk asset terms comprises 1.96% of the total risk assets as of December 31, 2013, compared with 1.65% as of December 31, 2012.
The increase in the allocation of capital to market risks stemmed mostly from the change in the Bank's foreign currency position.

(8) MANAGEMENT OF TRADING POSITIONS

The Bank distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. The trading positions are the result of the Bank's activity as a market maker and a result of dynamic management of its liquid financial asset portfolio. The trading activity is intended at creating income while enabling exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
The Board of Directors has determined separate sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activity were determined by the Board of Directors in terms of scope of activity, sensitivity to risk factors and theoretical losses incurred, including in extreme scenarios, and in terms of the value at risk (VAR). The management and control factors regarding these activities have also been determined.
Control over trading activities, including the examination of compliance with restrictions and profitability calculations, is carried out on a daily basis.
For the purpose of computations of capital allocation to market risks in the first pillar, the Bank has determined the positions to be included in the trading portfolio. Such positions comply with the requirements of Basel II guidelines and include financial instruments held for trading as well as instruments hedging other components of the trading portfolio. The Bank has defined that the portfolio shall include the activity of the dealing room as well as certain activities relating to bonds. The volume of the trading portfolio of subsidiaries is not material.

(9) OPTION RISKS

Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations.
The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in case of a moderate scenario.
The Bank is active in a variety of types of options– regular options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).
The scenarios relate to simultaneous changes in exchange rates or indices and in the volatility of base assets. In addition, the dealing room procedures include limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").
The boards of directors of the principal banking subsidiaries have also set limitations on the activity in options.
No deviations from limitations set by the Board of Directors were recorded in 2013.

(10) ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Board of Directors has determined the mode of the Bank's 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 volume of operations for each derivative financial instrument has been determined in addition to other limitations, this, among other things, in order to restrict the operational risk involved in its operations, and therefore the volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.
The Bank's transactions in derivative financial instruments are made partly with banking institutions or Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures.
These transactions are implemented both for the Bank's customers and for the Bank itself, for hedging and for other purposes. The dealing room implements trading activity and risk hedging activity for customers as part of its market risk management. Subject to the limitations set out by the Board of Directors, further internal limitations were fixed for the dealing room with regard to this area of operations.

The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions are made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.
Market exposure created as a result of transactions in derivative financial instruments, both as regards linkage base and as regards interest rates, is included within the framework of the various limits imposed by the Board of Directors on exposure to linkage base, interest rates and options. 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 total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by the Middle Office.
No material deviations from limitations set by the Board of Directors were recorded in 2013.

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

	December 31, 2013	December 31, 2012
	in NIS millions	
Hedging derivatives	1,869	1,525
ALM derivatives	183,347	156,154
Other derivatives	36,173	17,857
Credit derivatives and SPOT foreign currency	2,078	1,549
Total	**223,467**	**177,085**

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof is stated in Notes 1 D 6 and 20 to the financial statements.
According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".
The majority of base assets, the exposure of which to market risk, as stated, was hedged by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions". The effect of the above was an increase in the non-interest financing income by NIS 195 million in 2013, compared with NIS 75 million in 2012.
Details of financing income from derivative financial instruments are presented in Note 24 to the financial statements.
Activity in the Ma’of market. The Bank operates in the Ma’of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma’of market both on customers’ behalf and on behalf of the Bank itself. The Bank permits selected customers to operate on credit in the Ma’of market while monitoring closely, on an ongoing basis, the risk involved in the portfolio as compared with security received.

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.

Amendment of Proper Conduct of Banking Business Directive No. 342. In January 2013, the Supervisor of Banks issued an update to the Directive regarding "Liquidity risk management", with effect from July 1, 2013. In January 2013, the Supervisor of Banks issued a translation of the Basel III instructions – the liquidity coverage ratio and monitoring tools for liquidity management, to be implemented as from January 1, 2015. The Bank and the Group companies are preparing for the implementation of the guidelines and for the computation of the quantitative assessment required by the Supervisor of Banks (QIS).

POLICY

The Bank manages its liquidity risks subject to the policy of liquidity risk management, approved by the Board of Directors and reflecting the guidelines of the Regulator on the subject and the accepted principles in this matter. The policy includes reference to a number of stress tests, the structure of the resources of funds, the liquidity cushion and the fixing of limits regarding the various risk assessments. The policy includes in addition the Bank's plan for dealing with a liquidity crisis, including defining an array of indicators used for the identification of liquidity risk trends.

Limitations on the exposure to liquidity risks. The limitations determined by the Board of Directors in the policy document, refer to a number of risk assessments as well as to the structure of assets and liabilities.

Several deviations from the limitations set by the Board of Directors were recorded at the end of 2013 and at the beginning of 2014. These deviations were the result of a specific deficiency in work procedures. The Bank maintains high levels of liquidity, so that the said deviations do not indicate deterioration in the liquidity risk situation, and were merely of a technical nature. The Bank acted immediately to improve work procedures in order to avoid further deviations.

STRUCTURE AND PROCESSES

THE INTERNAL CONTROL MECHANISMS FOR AVOIDANCE OF DEVIATION FROM POLICY:

- A Business Liquidity Forum is run convening at least once a week discussing the liquidity situation and examines the application of decisions made by management factors.
- A forum dealing with the adequacy of the model constituting a joint committee of the risk management and assets and liabilities management, the duties of which are to review the adequacy of the parameters used in the model, the methodology of their determination and risk limitation, and to provide recommendations for changes in the managed pressure level.

Asset and liability management committee (ALM committee). This committee is headed by the President & CEO and meets once a month. See above "Management of market risks".

MEASUREMENT AND REPORTING SYSTEMS

The current assessment of the liquidity risk provides decision makers with indications for the identification of situations in which the liquidity risk rises, which enables the maintenance of a proper liquidity level, and is conducted, as stated, using the Riskpro system.

Risks are being identified and assessed on a current basis, both at the Group level and at the level of each Group company, the operations of which involve liquidity risk.

The identification of trends in the liquidity situation is conducted through a monitoring process that examines the results of the internal model, and through indices and additional tools, as well as the current examination of the key risk indicators.
The Banking subsidiaries also conduct their liquidity risk management in accordance with the requirements.
The policy document regarding liquidity risk management was updated in the fourth quarter of 2013.
For additional details see "Liquidity and the raising of resources in the Bank".

OPERATIONAL RISKS

An operational risk is a loss risk resulting from faulty data processing systems, human error and the lack of proper checks and controls.
The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.
Towards the end of 2012, a unit has been established, which has the responsibility of acting as the second control circle of the embezzlement risk management at the Bank. Its object is to verify that the embezzlement risks are being managed closely and consistently by all risk center managers, including the monitoring of warnings suspected as prima facie unauthorized operations performed by employees.
Proper Conduct of Banking Business Directive regarding operational risk management. The Discount Group complies with the instructions of the Directive, the central principles of which matched the policy and vision of the Group's risk management. The Directive became effective on January 1, 2013, except for Section 29 thereof, regarding taking the operational risk into consideration in internal performance measurement and pricing mechanisms, which will become effective on January 1, 2014.

POLICY

Operational risk management policy. The Bank endeavors to manage the operational risk in accordance with the policy document, including a declaration of tolerance to operational risks and the setting of limitations and targets for monitoring. The subsidiary companies have adopted the policy with the required adjustments. In accordance with Proper Conduct of Banking Business Directive No. 350 in the matter of operational risk management, the policy was updated and approved in April 2013.
The objectives of the operational risk management policy are to define and communicate the operational risk management requirements to all the Bank's and group's units and to ensure the effectiveness of managing, controlling and supervising the operational risks inherent in the Bank's activities. The policy is also intended to ensure:
- Existence of processes for the identification, evaluation and ongoing monitoring of the risks, minimizing risk and current control in all Bank units;
- Defining a clear frame of work at all levels of the Bank, supporting operational risks management;
- Definition of tolerance to operational risks and the setting of limitation and way of monitoring them. This definition will allow efficient, responsible and expense efficient operational activity;
- Full reporting of failure events, including "almost failed" events, and the existence of an effective process for drawing conclusions.

In addition, the policy states that:
- The Bank's Management, by means of the Risk Management Department, is to examine consistently and in an ongoing manner the substance and intensity of the operational risks affecting the Bank in order to confront such risks in an effort to minimize the Bank's exposure to the occurrence of failure events;
- The Chief Risk Manager is responsible for the development of methodology and models and for forming work tools and evaluation methods for the assessment of the operational risks of the Group in order to create quality, effective and active operational risk management at the Bank;
- The Risk Management Group is responsible for the implementation of operational risk management by defining optimal work

processes and procedures in this field, including a training program for all echelons of the Bank, in order to strengthen awareness of the operational risk management culture;

- Identification and evaluation of the risks and controls will be conducted on a current and periodic basis. An examination, analysis and self evaluation of the operational risk management and their scale are to be performed every three years or during three years, with respect to each risk center, taking into consideration the changes occurring in new processes, new operations and products. The evaluation is to be performed in accordance with the operational risk evaluation methodology, while giving special attention to the control environment. Current updating shall be made following changes in work processes, use of new information technology systems or entry into new activities or new products.

STRUCTURE AND PROCESSES

Organizational structure of the operational risk management function. The Chief Risk Manager bears the overall responsibility for the management of this risk at the Bank and the Group. Each Division or Group Head is responsible for the management of operational risks inherent in his area of activity. In addition, operating risk controllers serves at all of the Bank's divisions and Groups, the duty of which, among other things, is to assist the division or Group head in managing operating risks, including identification of the risks, their measurement and formation of plans for reducing them. Operating risk controllers communicate with and report to the risk management department. The Risk Management Department, which reports to the Chief Risk Manager, is in charge of formulating the operational risk management policy and is responsible of verifying its implementation while providing the necessary tools in this respect, formation of a methodology for identification and measurement of risks, monitoring and reduction of risks and reporting the results to the Risk Managers Committee, the Bank's Management and the Board of Directors. The department is also responsible for integrating the culture of managing the operating risks within the units of the Bank and the Group.

The subsidiary companies have formulated an organizational structure to support the management of their operational risks along the same lines mutatis mutandis. Such an organizational structure enables an efficient and overall Group management of the operational risks in the Group.

Operational risk controllers' Forum. The Forum, headed by the chief risk officer, meets once every quarter and also meets as a Group Forum twice yearly.

MEASUREMENT AND REPORTING SYSTEMS

Risk evaluation methodology. The risk evaluation methodology has been formed by the Risk Management Group and is used by the Bank and its subsidiaries in their current evaluation, both of existing risks and of risks involved in new work processes and new products. The methodology is examined periodically in order to ensure its effectiveness and relevance.

The risk evaluation averages out the characteristics of the process and the volume of the damage that might occur as well as the effectiveness level of existing controls, based on defined parameters. The combination of risk evaluation and existing controls enables evaluation of the fundamental and residual risk level in qualitative terms.

Operational risk survey. The operational risk survey is one of the tools used by the Group for the periodic identification and evaluation of operational risks to which the Group is exposed. A Group operational risk survey, which began in the last quarter of 2011, was completed in June 2013. The survey is being performed with the assistance and guidance of an external consulting company. 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.

Operational risk management system. The information system for the management of operational risk has been fully integrated at the Bank and at most of the subsidiaries. The system enables monitoring, analysis and reporting of operational risks at the Discount Group. The system enables Group management in accordance with the risk evaluation policy and methodology.

RISK MITIGATION

Operating failure events. Investigating and reporting failure events comprising an integral part of the current risk management in its framework, the managers of risk centers report and investigate failure events that have occurred, draw conclusions and improve and strengthen controls over the various processes. The Bank is setting up a data base concerning the realization of operating failure events based on reports by the Bank's different risk centers. The Bank endeavors to achieve a wide and comprehensive data base of failure events. Such data base will enable the analysis of failure factors, the treatment of risk centers identified and the establishment of risk indicators that would allow, in the future, the monitoring of risks prior to their materialization.

Current management of operational risks. The Bank examines on an ongoing basis exposure to operational risks and implements measures for the mitigation in the material risks level. The risk centers managers are taking steps towards the implementation of the risk mitigation plans and update on a quarterly basis, the information regarding the progress of implementation of the new controls. The performance status regarding the implementation of the mitigation plans is reported to management and the Board of Directors on a quarterly basis. In addition, the risk centers managers update the risk maps on a regular basis, following the implementation of controls (information systems, procedures, reports etc.), identify and evaluate risks and controls applying to new work processes or following changes in existing work processes. The internal failure events database enables the validation of the risk evaluation performed by the risk center managers and an examination on a current basis of the necessity for a re-evaluation of the risk.

Mitigating exposure to operating risks through the purchase of insurance. The means applied by the Bank with a view of mitigating exposure to operating risks, include, among other things, the purchase of a designated bank insurance policy within a responsibility limit of US$150 million, that hedges a part of operating risks to which the Bank is exposed.

The Bank's insurance policy includes several relevant sections, namely: (1) Banking insurance section, focusing on events such as betrayal of trust by Bank employees, monies and valuable assets at the Bank's premises, monies and valuable assets in transit, forgery of checks, forged collateral and forged monies; (2) Computer offences insurance section, focusing on events such as fraudulent or malicious input of electronic data directly into the Bank's computer systems or of a service bureau, or into an electronic money transfer system or to a customer communications system, fraudulent or malicious change or destruction of electronic data; (3) Professional liability insurance section, intended to insure the Bank in respect of its legal obligations to third parties, considering a lawsuit or claim for damages in respect of a financial loss resulting from negligent action, error or omission or betrayal of trust on the part of a Bank employee; (4) Personal deposit boxes insurance intended to insure the Bank in respect of loss or damage to customers' assets, including cash and jewelry, found in personal safe deposit boxes at the Bank's premises within the boundaries of the State of Israel.

Furthermore, within the framework of the insurance policy issued to companies in the Discount Bank Group, the Bank had purchased insurance coverage for claims against Directors and Officers within a responsibility limit of US$150 million.

In addition, the Bank purchased an "Expanded Fire" policy to insure its property, an insurance covering its liability under law for bodily harm in the amount of US$50 million, and employer liability insurance in the amount of US$30 million.

The scope of the Bank's insurance coverage has been examined with the assistance of an independent professional advisor and is in compliance with Proper Conduct of Banking Business Directives Nos. 301 and 352.

PREPARATIONS BY THE BANK FOR BUSINESS CONTINUITY

The Bank's Business Continuity Plan ("BCP") is designed to ensure the continuation of regular banking operations and services defined as vital, during periods of emergency on national and local levels. The plan covers and supports vital business operations, in all their chain of supply, from one end to the other: infrastructure, computer, hardware, software, communications, human resources, etc. All these will assure the Bank's continuing business operations under extreme circumstances, while providing an array of services to the Bank's customers at a reasonable level of service.

Layouts and services supporting the corporate and retail networks are at the disposal of customers, as follows: countrywide core

branches that are prepared and equipped to continue and provide service during emergencies, backup branches for those damaged, direct banking lanes through telephone and internet communication. All these are designed to provide 24 hours a day banking services at any place, a "hot-line" for customers of closed branches and countrywide automatic banking machines that enable self-service banking operations. In addition, the Bank is able to operate mobile bank branches in emergency situations.
At the basis of the preparations for continued business operations is the backup system established by the Bank for the vital technological infrastructure. The backup system is based on: "hot backup" for the central computer system established at a designated distant location, a backup location for the dealing room, a backup location for direct banking operations/Discount Telebank, an active "hot backup" for the vital information systems, backup of the clearing layout through backup arrangements with other banks, and more.
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.
Regulation and control. The Bank is acting towards the implementation of the regulation in the matter of business continuity, in accordance with: Proper Conduct of Banking Business Directive No. 355 – Business continuity management; the implementation of the recommendations included in the "Evaluation of the framework for business continuity management" document issued by the Supervisor of Banks; updating of impact scenarios in accordance with the "Reference scenarios for the banking industry" document of the Supervisor of Banks; reporting instructions to the Supervisor of Banks in times of emergency.

POLICY

During the year 2013 the business continuity management policy document was formed and approved, which defines the targets for the preparation for business continuity management; the organizational structure under everyday and emergency situations; authority and responsibility of executives in the business continuity layout; methodology for the management of business continuity.

STRUCTURE AND PROCESSES

During 2013, the Bank completed most of the adjustments and updates required by Proper Conduct of Banking Business Directive No. 355 "Business continuity management".
All divisions of the Bank have upgraded their preparedness for maintenance of business continuity in accordance with the across the board work plan, which emphasizes the implementation of five basic principles (updating of the emergency file, the holding of round-table discussions, formation of response plans, monitoring and control of the elimination of gaps, instruction training and exercising).
A survey of business continuity risks has been made, the risk map has been updated and plans for risk reduction have been developed.
A divisional "qualification index" has been devised, which is to assist the Bank in the objective evaluation of the measure of its preparedness for the maintenance of business continuity and will respectively focus the allocation of the required resources.
The multi-annual work plan for the elimination of gaps regarding the Bank`s preparedness for the maintenance of business continuity has been updated.
Exercise. A significant part of the high preparedness level for business continuity management is the performance of exercises and training. The work processes related to business continuity are examined as part of the Bank's exercise program and conclusions are drawn as to their improvement.
During the year, the Bank`s units have performed some forty exercises for increasing the Bank's preparedness for the materialization of business continuity events, including: exercising the disposition of a mobile branch; exercising the operation

of alternative designated sites; exercising the alternative manning of business units/regional units and head office units; exercising technological infrastructure and the relocation of technological installations; methodical exercise of business and operational issues in times of emergency.

MEASUREMENT AND REPORTING SYSTEMS

The mapping of business continuity risks, the evaluation and monitoring thereof is being conducted as part of the identification and evaluation of operational risks and it is managed by means of the operational risk management system. This assists the Bank in managing the risk effectively and with a high degree of transparency.
An additional system supporting this process is the crisis management system, integrated at the Bank during the year. As part of the integration process of the system, procedures were formed and relevant information fed into it.

INFORMATION TECHNOLOGY RISK MANAGEMENT

General. The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

STRATEGY AND POLICY

The Bank has the following policy documents with respect to information technology:
- Information technology policy, the essence of which are managing and operational information technology aspects;
- Data protection policy, the essence of which is guiding principles for maintaining reliability, confidentiality and availability of information;
- Information technology risk management policy, the substance of which comprises basic principles for the reduction of exposure of the Group to the realization of these risks.

STRUCTURE AND PROCESSES

The Head of the Technology and Planning Division serves as the information technology risk manager at the Bank and the Group.

RISK MANAGEMENT UNITS

First line of defense. Two central units operate within its framework – IT risk department and data protection department.
- **IT risk management department.** The responsibility of the department is to outline the IT risk policy; to guide the computer units at the Bank and at the Group regarding the management of IT risks, and to supervise the implementation of the policy in this matter; to outline control processes designed to assure that exposure to IT risks will not deviate from the determined maximum risk tolerance, and exposure limits determined in accordance therewith and to periodically perform a self evaluation of the risk and effectiveness of the risk management process.
- **Data protection department.** In the framework of the department, operates various contents specialists in the field of data protection. The department is responsible for outlining the data protection policy at the Bank and the Group; guiding the different units in the IT and Planning Division, in the Bank and in certain subsidiaries in matters of implementation of data protection aspects in the various systems and supervise the implementation of its recommendations; implement various control processes for the evaluation of the data protection quality, including tests of system penetrations by an independent factor, and more.

Second line of defense. A designated function operating in the risk management group at a Group level, which is responsible for: independent verification of the appropriateness of risk management processes; challenging information technology risk mapping; monitoring compliance with determined limitations on risk tolerance; verifying effective risk management in strategic projects with respect to information technology; and an independent evaluation of the fairness of preparations made by the information technology group with respect to emergency situations and/or stress situations.

CENTRAL COMMITTEES

Two group committees operate in the Group headed by the Head of the Technology and Planning Division.

- Information technology risk management committee. The committee is responsible for the examination of the information technology risk management policy, examination of risk and material failure events in the IT risk field and the drawing of conclusions, examination of the determined tolerance threshold for information technology risks, and more.
- Data protection supreme steering committee. The committee is responsible for the examination of threats and material and/or new risks in the field of data protection, examination of exceptional events, providing operating guidelines and acting to minimize risk performing, monitoring and control over the implementation of data protection policy, and more.

THE CORE PROCESSES FOR RISK MANAGEMENT

The core processes are based on the risk management principles, with the required adjustments to the information technology world, including: the mapping of all of the Bank's systems in order to evaluate the level of importance of each system to the Bank's business activity and to evaluate the existing control environment of the system, assessment of the exposure to the realization of business risks, such as: credit risk, market risk, compliance risks, etc. deriving from a failure of one of the systems, and more.

In addition, IT risk surveys and data protection risk surveys are being performed in the systems of the Bank, at intervals that match the criticality of the system and the risk inherent therein.

These processes allow effective focusing on areas and systems that had been identified as having the highest risk of disrupting business operations. They also enable the formation of a multi-annual work plan as well as a rapid adjustment of the risk management strategy and the risk map, in accordance with changes occurring at the Bank and/or in its operation environment.

REPORTING

The Head of the IT and Planning Division reports, on a fixed frequency, to the Management and to the Board of Directors, on cases of deviation from the limit of risk tolerance in the field of information technology at the Bank and at the subsidiaries in the Group, the operations of which are dependent upon computer services provided by the Bank. He also reports risks at a "very high"/"high" level of exposure, material failure events and rectifying measures taken in their respect, and more.

BUSINESS CONTINUITY

As part of the Bank's preparations to ensure its business continuity, the Bank has at its disposal a "hot" backup site, manned and operating continuously, which is capable of providing support for the Bank's core processes and for additional processes in the event that the production site is put out of operation. In addition, the Bank is in the midst of a project designed to reduce the risk of damage to both databases by a site where an additional copy of the data is maintained on a set of disks (this in addition to the two existing sets and to the backup layout using cassettes that exists at the Bank).

THE IMPLICATIONS OF DATA PROTECTION RISKS AND CYBERNETIC INCIDENTS

Threats in the cyberspace. As a general rule, threats in the cyberspace are defined as threats that may cause a shutdown of

systems, preventing material services, material damage to confidentiality and completeness of data and performance of hostile actions and fraud. In recent periods, we are witnessing a global intensification of this threat, both regarding the scope of attacks as well as their sophistication.
In 2013, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions. The Bank is preparing for the realization of the implementation program, in accordance with guidelines of the Supervisor of Banks in the matter.
Structure and processes. A data protection manager serves at the Bank, who is directly subject to the Head of the IT and Planning Division. For details regarding the duties of the data protection department, see above.
Attainment of the data protection goals is achieved through the implementation of a set of protection means, monitoring and control. Starting with policy and procedure outlines, determination of areas of responsibility and authority, installation of protection and reinforcement technologies, and ending with monitoring methods and treatment of security incidents.
Data protection surveys and penetration tests to the Bank's systems are performed by independent external companies specializing in data protection and IT risks. The frequency of performing a survey in respect of each system is determined according to the criticality of the system and the risk inherent therein.
Protection of the Bank's sites. In accordance with the Bank's policy in the matter, systems preventing unauthorized access as well as systems monitoring and identifying deviation from authorized activities are integrated into the Bank's systems. Protection of the marketing sites and of the Bank's operations is continuous. The Bank operates a data protection center that operates continuously throughout the year (24 hours per day 365 days per year), and is responsible, among other things, for the identification and warning of any activity intended to damage the Bank's sites or its customers (by means of imitation sites). The Bank's operational sites that provide service to customers over the Internet, are protected by several layers of defense, which include protection components for hardware/ communication/and services providing information regarding attacks and hostile addresses. All protection layers are monitored and reported to the data protection center. The Bank performs current operations to increase awareness and improve the organizational culture with regard to data protection aspects, which include, among other things, training sessions, distribution of policy documents, memos and marketing accessories.
As part of risk management, the Bank investigates various incidents, gains insights and draws conclusions. Such insights, together with data protection surveys enable the Bank to map gaps that should be rectified and determine preferences in the treatment thereof, on the basis of which the Bank establishes work plans.

ENVIRONMENTAL RISKS

In the Supervisor of Banks' guidelines regarding the exposure to environmental risks and their management, various possible aspects regarding the exposure of banking corporations to environmental risks are detailed and the need to relate to these risks individually is emphasized. These risks may be included within the framework of the other risks (such as: credit, market, operating, legal and liquidity risks). Environmental risk may derive from an impairment of collaterals when realized. Furthermore, the risk might be realized in an indirect manner as a result of deterioration in the financial condition of another party due to environmental costs resulting from regulations regarding environmental protection. Damage to reputation may also be recognized as part of environmental risk, as a result of the possibility that relation to an environmental hazard might be attributed to the banking corporation.
Within the framework of the Bank's credit policy 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.

LEGAL RISKS

According to Proper Conduct of Banking Business Directive No. 350 of February 14, 2012, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events, where the legal risk is defined as including, but not limited to exposure to fines or other punitive action stemming from supervisory activity as well as from individual arrangements.

Among the principal legal risks, the following may be mentioned: absence of knowledge of the law, whether local or foreign, applying to the operations of the Bank and the Group, with the resulting higher risk of obtaining mistaken legal advice, the absence of legal certainty as regards the applicable law, failure in the timely identification of changes in the law, considering the many changes made from time to time, business activity without legal support, use of inappropriate standard documents, non-compliance with the law and/or regulations, which might result in monetary sanctions and/or criminal liability of the Bank and/or of its staff.

The Bank's chief legal adviser serves as legal risks manager and is responsible for the legal risk management at the Bank and the Group. As part of legal risk management, the Bank acts towards the collection and concentration of information relating to legal risks at the Bank and the Group, including information as to changes in legislation and/or updated court rulings that have material implications upon the Bank's operations, as well as information with respect to material legal actions and proceedings in which the Bank is involved. The Bank has a legal risk management policy intended to minimize exposure to legal risks. In this framework, the Bank acts towards pinpointing legal risk centers and the formation of processes, procedures and reporting routines for the purpose of treatment and monitoring such risks.

The Bank's Board of Directors approved in October, 2012, the legal risk management policy document of the Discount Group.

During 2013, the Bank acted to distribute its legal risk management policy to its material subsidiaries and the overseas extensions, with the aim of having this document adopted by them, with the necessary changes.

REGULATION RISKS

Regulatory risk forms part of the legal risk, and has been defined by the Bank as a loss stemming from non-compliance with various regulatory directives, including requirements of foreign regulation, applying to the Bank and the Group.

The Bank's operations are regularized by various regulatory directives, under which various limitations are imposed on its fields of operation and sources of income and which impose on the Bank different duties applying to it due to its status as a "banking corporation". These directives include, among other things, the Banking Law (Licensing), 1981, the Securities Law, 1968, the Regulation of Engagement in Investment Consulting and in Investment Portfolio Management Law, 1995, the Anti Trust Law, 1988, Proper Conduct of Banking Business Directives, including regulations, rules and additional duties imposed on the Bank by the various supervisory authorities to which the Bank is subject within the framework of its operations.

The Bank and the subsidiaries under its control are exposed to frequent changes in legislation and various regulatory directives, which at times apply retroactively and which expose the Bank and its subsidiaries to risks involved in frequent changes in work procedures and to costs involved in the preparations required for the implementation of the relevant directives. As part of managing the regulation risk, the Bank conducts an ongoing follow-up of changes in legislation and regulation that have a material effect on the Bank's operations, in order to prepare for the implementation of the directives applying to the Bank and its subsidiaries.

COMPLIANCE RISKS

Compliance risk is a risk of exposure of the banking corporation to legal or regulatory sanctions of material financial loss or damaged reputation, as a result of failure to comply with legal or regulatory rulings.

Compliance risk at the Bank is being managed by the compliance officer with respect to consumer regulatory instructions, in accordance with Proper Conduct of Banking Business Directive No. 308 (with respect to regulations in the matter of money laundering and finance of terror prohibition, see below "Officer in charge of money laundering prohibition").

The operations of the Bank and of its subsidiaries are subject to various consumer instructions (laws, regulations, orders and directives regulating banking operations in Israel with respect to bank/customer relations), both in areas of banking activity and in other areas.

Non-compliance with consumer regulations might expose the Bank to sanctions originated from regulatory provisions (such as: fines, monetary sanctions, etc.), to criminal liability of the Bank and its officers, monetary losses and reputation risks.

New activities at the Bank, frequent changes in consumer regulation, and a multitude of consumer regulation instructions applying to the Bank and to its subsidiaries relating to existing and new fields of operation, require modification of the infrastructure supporting the duties stemming from these instructions.

Policy document regarding management of compliance risk. The policy document for compliance risk management had been approved by the Bank's Board of Directors, and was applied, with the necessary modifications, on the subsidiary companies. The compliance risk policy document was applied, mutatis mutandis, during 2013, also to IDB New York.

The policy document establishes basic principles taken from the Basel documents regarding compliance aspects and corporate governance principles. The document defines the structure of control circles supporting the management of compliance risk and areas of responsibility, details the main core procedures of the operation of the compliance officer and the principles for the management of Group risks.

Supporting infrastructure. Different kinds of infrastructure exist at the Bank to verify implementation of the regulation – computer, control, integration (procedures) and training infrastructure. As part of the examination of a new activity or a new regulation, examinations are performed with respect to the infrastructure supporting the activity/regulation and its agreement with the risk deriving from the new activity/regulation. Furthermore, in accordance with Proper Conduct of Banking Business Directive No. 308, an infrastructure survey is being performed once every five years, the object of which is to verify that the Bank is prepared for the implementation of compliance with duties stemming from the consumer instructions. The last infrastructure review performed by the Bank was completed in December 2013 and was discussed by the Bank`s Boards of Directors and by the relevant subsidiaries.

An infrastructure of procedures exists at the Bank, designed to enforce compliance with the various requirements of the consumer regulatory provisions. The procedures are updated from time to time in accordance with the regulatory directives and in accordance with the various activities performed by the Bank. Concurrently the systems supporting compliance with the said regulatory provisions within various activities are being updated. In addition, in order to increase awareness to the importance of compliance, the Bank conducts study sessions on the subjects of compliance among the staff, including managers in general, and of compliance with the consumer instructions relevant to the work environment of specialized groups of employees in particular.

Control and supervision. Compliance with the provisions of the consumer regulations are enforced on a regular basis by means of various control and supervision systems - the compliance officer, compliance trustees and internal audit. With a view of improving control mechanisms and tightening supervision over compliance to regulatory provisions, as stated, including in the matter of money laundering prohibition, the Bank has appointed Compliance Officers, compliance trustees at various organizational levels (branches, regions, divisions, as the case may be).

The internal audit constantly and continuously examines all areas of operation of the Bank. For details of the activities of the internal audit, see the section "The internal audit in the Group" below.

Compliance officer. According to Proper Conduct of Banking Business Directive No. 308, the Compliance Officer is responsible for coordinating the Bank's actions regarding compliance with consumer regulations including in the field of prohibition of money laundering.

The positions of the compliance officer and of the officer in charge of money laundering prohibition were manned in the past by two different office holders. In February 2013, a chief compliance officer was appointed, who is a senior manager reporting to a vice president who coordinates and manages both fields together within the framework of the compliance department as part of the risk management group.

The compliance officer acts in this role also at several subsidiary companies of the Bank. Most of the subsidiaries in Israel and abroad have appointed their own compliance officers in accordance with the said instruction, and the Chief Compliance Officer maintains communication with them on a regular basis. Between the compliance function at the Bank and the compliance functions at the subsidiary companies, an interface exists for the purpose of updating and coordination within the framework of which, among other things, operates a permanent forum of compliance officers of the Group in Israel, which convenes in each quarter. In addition, action is being taken to tighten the interface with the compliance functions at the Bank's overseas extensions (IDB New York, IDB (Swiss) Bank and the London Branch).

For the purpose of his work, the Compliance Officer is assisted by the coordination committee that meets once in every quarter.

The compliance officer monitors the Bank’s preparations for the implementation of the duties imposed on it under the consumer regulations, involved in an active manner in the preparations for a new activity at the Bank, for the purpose of verifying compliance of the Bank with the said duties relevant to the Bank's new activity, and monitors the rectification of various deficiencies in complying with the consumer instructions. The compliance officer submits quarterly reports that include a summary of his operations, to the Bank's President & CEO as well as to the CEO's of the subsidiaries in which he serves as a compliance officer. In addition, the compliance officer submits to the Bank’s President & CEO, to the CEO’s of the said subsidiaries and to their Boards of Directors, an annual report summarizing his operations of the Bank and of the said subsidiaries. In accordance with Proper Conduct of Banking Business Directives and at intervals determined therein, the Bank conducts an infrastructure survey that includes mapping of the consumer instructions applying to the Bank and the duties stemming from them, the potential exposure arising from the non-fulfillment of the said duties and the preparations for their implementation are being monitored by the infrastructure supporting the fulfillment of duties (work procedures, computer infrastructure and other means of control).

The officer in charge of money laundering prohibition being an additional duty performed by the Chief Compliance Officer, who is appointed for this duty under the provisions of the Prohibition of Money Laundering Act and related regulations, and he is responsible for the fulfillment of the duties imposed on the Bank with respect to money laundering and the financing of terror activities. In accordance with the requirements of Proper Conduct of Banking Business Directive No. 411. As stated, the Prohibition of Money Laundering unit forms part of the compliance department in the Bank`s risk management group.

The subsidiaries in Israel as well as the Bank's overseas extensions that are subject to this requirement, have also appointed an officer in charge, as required by law.

Non-compliance with directives applying to the Bank with respect to money laundering exposes the Bank to monetary sanctions, goodwill risks as well as to criminal proceeding, in respect of violation of the provisions of the law relating to this issue.

The officer in charge of the prohibition of money laundering is responsible for the writing of work procedures and the establishment of a computerized infrastructure required for the compliance with the provisions of the law applying to the Bank in this respect, as well as for the submission of reports to the Prohibition of Money Laundering Authority, in respect of operations subject to reporting in accordance with the law. The Bank is assisted by a computerized system in monitoring transactions that seem unusual and should be reported.

The Bank conducts ongoing instruction sessions at its various units intended to increase awareness and knowledge of this subject.

The officer in charge of money laundering prohibition communicates with the subsidiaries in Israel and with the Bank's foreign extensions for the purpose of monitoring the implementation of the Bank's policy and regulatory directives regarding money laundering prohibition and the finance of terror on a Group basis and this in accordance with the Group's policy. This activity is supported by the integration of the money laundering prohibition unit, as part of the compliance department in the Bank's risk management group.
See "Prohibition of Money Laundering Law and Prohibition of the Financing of Terror Law" under "Legislation and supervision" below regarding legislation in the matter of money laundering.
Disclosure regarding risks and limitations pertaining to relations with Iran or with the enemy. The Bank strictly complies with the requirements of the law in this respect, including the provisions of the Money Laundering Prohibition Act, Trading with the Enemy Ordinance and the provisions of the Financing of Terror Prohibition Act and to the best of its knowledge it does not have relations, directly or indirectly, with Iran or with the enemy. Accordingly, the Bank has no material exposure in this respect.
Group policy regarding money laundering prohibition. A Group policy is updated and approved by the Board of Directors in each year in the matter of prohibition of money laundering and prevention of the finance of terror. The policy was updated in June 2013, in accordance with updated regulation instructions, changes in work procedures, elimination of gaps identified by reviews, audit findings and more. The policy was adopted with the required modifications, by the subsidiary companies and the overseas extensions. The policy document determines the Group's standards with respect to money laundering and the finance of terror as well as principles for management of this risk on a Group basis. The object of the policy is to support the business goals and strategic objectives of the Bank and the Group, in order to prevent or minimize losses.
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, see hereunder in "Israel Credit Card Company Ltd." under "Main investee companies". For details regarding an audit by the Bank of Israel at MDB in the matter of “Compliance with the Prohibition of the Financing of Terror Law”, see below in “Mercantile Discount Bank Ltd.” under “Main investee companies”.
Audit report in the matter of the prohibition of money laundering. An audit report by the Bank of Israel in the matter of prohibition of money laundering was received on February 24, 2014, following an audit performed at the Bank in the last quarter of 2012 and in the first half of 2013. The report examines the fairness of integration of the laws and instructions relating to the prohibition of money laundering and the manner in which the Bank applies them in practice. The audit focused on four main areas: the "know your customer" process, the control layout with respect to the law and regulations in one of the Bank's divisions, the control layout in another division of the Bank and the fairness of the monitoring of extraordinary operations and the reporting thereof to the Israel Money Laundering and Terror Financing Prohibition Authority. The Bank has begun to rectify the deficiencies indicated by the report and to implement the requirements included therein.

EFFECTS OF EXTERNAL FACTORS

MAIN DEVELOPMENTS IN ISRAEL AND AROUND THE WORLD IN 2013

DEVELOPMENTS IN GLOBAL ECONOMY

General. The year 2013 was characterized by the continuing moderate expansion of the global economy (at the rate of 3%), with significant differences between the leading economic zones.

In the U.S., the product grew in 2013 at the rate of 1.9%, this compared to a growth of 2.8% in 2012. The said slowdown resulted mostly from a moderate growth at the end of 2012 (end effect) and at the beginning of 2013, when in the continuation of the year the rate of expansion accelerated. The continued economic expansion was accompanied by the absorption of new employees and by the decline in the rate of unemployment, from 7.9% at the end of 2012 to 6.7% at the end of 2013. Concurrently, improvement in private consumption, in industry and in the real estate market continued.

It should be noted that in the second quarter of the year, on the background of the recovery, there were increased assessments that the central bank would begin reducing the quantitative expansion. However, only at the end of 2013, the FED announced the gradual reduction in the volume of bond purchases. It should also be noted that a partial solution for the "fiscal cliff" was achieved at the beginning of 2013. Notwithstanding, new developments in the matter were recorded in the last quarter of the year, on the background of disputes regarding fiscal matters existing in the Administration. In consequence thereof, a part of the Government services in the U.S. were closed down for a period of two weeks, At the end of which, a compromise has been reached.

The contraction of the product of the Eurozone, which lasted for a year and a half, was halted in the second quarter of 2013, with a positive growth being recorded also in the second half of the year. In total for 2013, the product contracted by 0.4% compared to a regression of 0.7% in 2012. It should be noted that the year 2013 was mostly characterized by a relaxation of the debt crisis in the Eurozone. Notwithstanding, a temporary eruption of the crisis was recorded in the period March to May, on the background of the general elections in Italy and the banks crisis in Cyprus. The said relaxation alongside the continued expansionary monetary policy, have supported the slow recovery of the Eurozone economy. However, the rate of unemployment in the Eurozone remained at a high level (approx. 12%).

The economy of Great Britain presented a continuing improvement, which, among other things, included an accelerated growth and a decline in the rate of unemployment. Notwithstanding, at the beginning of 2013, Moody's rating agency lowered the perfect rating of Great Britain to Aa1. Lowering of the credit rating of additional European countries was announced in 2013, and in particular, those of Italy and France.

The economies of the BRICS countries continued to expand, though at a slower pace than in the past. Furthermore, whilst the economy of China continued to expand at a similar pace to that of 2012 (7.7%) and that of Brazil recorded an accelerated growth, the economies of Russia and of South Africa recorded a significant slowdown (compared to 2012).

The global inflationary environment continued to be moderate, however the trend of price changes rate was not uniform. Whilst a moderate inflation rate was recorded in the U.S. and in the Eurozone (below the targeted rates set by the central banks), a price increase was recorded in Japan, following a long deflation period.

The slow recovery alongside a moderate inflation rate, have supported the continued expansionary monetary policy of most of the developed economies in the world. In the Eurozone in particular, the central bank lowered the interest rate by 0.5% (in two steps) to a level of 0.25% at the end of 2013. The interest rate in the U.S. remained unchanged (at a level of 0.25%), and as stated, the FED announced the reduction in the quantitative expansion towards the end of the year. The central bank of Japan has also adopted an expansionary monetary policy aiming at weakening the local currency and increasing inflation in the country.

The monetary policy of the BRICS countries was not uniform. Whilst in China, Russia and South Africa the interest rate remained unchanged, India lowered the interest rate while Brazil raised the monetary interest rate.

Financial markets. During the reviewed period, trading on world equities markets was affected by the continued recovery of the leading economies, by the policies of the central banks around the world, in particular that of the U.S., by the uncertainty existing with respect to fiscal issues in the U.S. (the budget and the debt ceiling) and by the high liquidity in the markets. Trading on equities markets in the developing countries was affected by the shifting of foreign investments from these markets to the developed countries. In consequence thereof, a non-uniform trend was recorded in equities markets around the world. While equities markets in developed countries were characterized by an upward trend, the emerging markets index recorded realizations.

Following are the changes in the leading equities indices recorded during the years 2012 and 2013:

	Change during the year	
Index	2013	2012
S&P 500	29.6%	13.4%
DAX	25.5%	29.1%
MSCI Emerging Markets	(5.0%)	15.2%

Trading in U.S. government bonds was typified by volatility, however, an upward trend in returns was mainly recorded. This happened on the background of the developments mentioned above and evaluations as to the reduction in the quantitative expansion in the U.S..

Following are the returns on government bonds:

Return on bonds for 10 years	December 31, 2013	December 31, 2012
U.S.A.	3.0%	1.8%
Germany	1.93%	1.32%

The trend in trading 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 of the world leading currencies, the U.S. currency weakened in the following period against a part of the currencies, and in particular against the Euro and the British Pound.

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

	Change during the year	
Exchange rate	2013	2012
EUR	(4.3%)	(1.8%)
JPY	21.5%	12.6%
GBP	(2.0%)	(4.3%)

Trading in commodities around the world was conducted on the background of the moderate economic growth (especially in the developing countries), the geopolitical developments (mostly in the second half of the year), the high level of liquidity in the markets and trends in the U.S. dollar. As a result of the above, commodity prices recorded volatility, when in total for the period the global commodities index (CRB) dropped by 5%.

Following are changes in selected commodities indexes:

	Change during the year	
	2013	2012
The commodities index - CRB	(5.0%)	(3.4%)
The oil price (BRENT)	(0.3%)	3.5%
The oil price (WTI)	7.2%	(7.1%)
Gold	(28.1%)	7.1%

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL

The Israeli economy expanded in 2013 at the rate of 3.3%, following a growth of 3.4% in 2012. However, approx. 0.9% of the growth in 2013, resulted from the savings in imports of fuel (following the beginning of natural gas production from the TAMAR field), which in fact reflects a significant slowdown as compared with 2012. The said moderation reflected a slowdown (or even a regression) in all applications, except for private consumption, alongside regression in imports. The Business product grew by 3.5% (3.4% in 2012), however, as stated, approx. 1% of the growth derived from the beginning of gas production.
The rate of unemployment has dropped from an average level of 6.9% in 2012 to a level of 6.2% in 2013. In particular, the rate of unemployment in the fourth quarter of the year was 5.7%.

MAIN DEVELOPMENTS IN ECONOMIC SECTORS

A decline of 1% in industrial production was recorded in 2013, when, with the exclusion of the hi-tech industries, a standstill was recorded (compared with 2012). These developments resulted mostly from the weakness in the hi-tech industries in the first half of 2013, though later on in the year, those industries reflected accelerated activity, and on the other hand a standstill in other sectors.
Turnover of the commerce sectors expanded in 2013 by 3.6%. This growth related to both wholesale and retail trading.

DEVELOPMENTS IN THE ACTIVITY OF THE ISRAELI ECONOMY WITH OVERSEAS MARKETS

A steep increase was recorded in 2013 in the direct investments in Israel by foreign residents, compared with 2012. Furthermore, financial investments in 2013 were positive, compared to realization of investments in 2012. It should be noted that financial investments in 2013 reflected investments in Israeli securities abroad, which were partly offset by realization of marketable securities on the Tel Aviv Stock Exchange (all realizations were in respect of government bonds and MAKAM short-term loans).
Direct investments abroad by Israeli residents recorded a steep growth was recorded in 2013. Concurrently, a considerable growth was recorded in financial investments, involving investments in both shares and bonds. About 40% of the financial investments abroad were made by institutional bodies.

Investments in Israel by foreign residents	2013	2012	Change
	US$ billion		
Total direct investments through banks	11.8	9.4	25.5%
Total financial investments in the Tel-Aviv Stock Exchange	1.6	(3.5)	-
Of which: Government bonds and MAKAM	(1.6)	(4.1)	-
Shares	2.48	0.29	756.6%

Investments abroad by Israeli residents	2013	2012	Change
	US$ billion		
Total direct investments through banks	4.9	2.35	-
Total financial investments (excluding banks)	11.0	8.8	25.4%

DEVELOPMENTS IN FOREIGN EXCHANGE RATES AND INFLATION RATES

During 2013, the Shekel strengthened against all leading currencies in the world and in particular against the U.S. dollar and the Euro, at rates of 7% and 2.8%, respectively. The exchange rate of the Shekel was mostly affected by the surplus on the current account, including the effect of the natural gas production of the TAMAR field, from extensive non-financial investments, from financial investments (among other things, on the background of the interest margins between Israel and the developed countries) and from the foreign currency trading trends globally. With the aim of moderating the strengthening of the Shekel, the Bank of Israel intervened on several occasions in the foreign currency trading and even announced that it would purchase dollars in significant amounts. Another move towards reducing the strength of the Shekel taken by the Bank of Israel was the lowering of the interest rate. Notwithstanding, the actions taken by the Bank of Israel to reduce the strength of the Shekel had only a temporary effect.

The inflationary environment in the reviewed period continued to be moderate, among the moderating factors were, the strength of the Shekel, the increase in competition in the economy, and the absence of pressure for higher wages. In total for the year, the CPI rose by 1.8%.

FISCAL AND MONETARY POLICY

Fiscal policy. The deficit in 2013 amounted to NIS 33.2 billion, or 3.15% of the product. This, compared to a planned deficit of NIS 45.6 billion (4.33% of the product) and a deficit of 3.9% of the product in 2012. The deviation from the planned deficit reflected higher than forecasted revenues in the amount of NIS 5.7 billion (most of which nonrecurring) and lower expenditure than planned in the original budget in the amount of NIS 6.7 billion (following the delay in approval of the budget).

Monetary policy. The monetary policy of the Bank of Israel in the reviewed period continued to be expansionary and included four reductions in the interest rate, in a cumulative rate of 1%. As a result thereof, the interest rate in December 2013 was 1%. The dominant factors that had supported the lowering of the interest rate were the strengthening of the Shekel exchange rate and evaluations for a moderation in the rate of growth of the economy.

THE CAPITAL MARKET

Similarly to the trend in the developed countries, a rise was recorded during 2013 in the leading share indices in Israel. As a result thereof, the market value of equities and convertibles rose during 2013 by 16.8%, amounting at the end of December 2013 to NIS 705.7 billion.

Following are the changes in selected share indices in the years 2012 and 2013:

General share index	15.3%	4.5%
TA 25	12.1%	9.2%
TA 100	15.1%	7.2%
TA banks	16.3%	22.9%
Blutech 50	8.6%	15.6%
Real-estate 15	26.0%	14.1%

The daily trading turnover in equities and convertibles in the reviewed period amounted to NIS 1.17 billion on an average (an increase of 8.8% compared with 2012).

Trading in government bonds in Israel was affected, to a large extent, by the lowering of the interest rate in Israel and from the relaxation of tension in the security situation (in the second half of the year), with a steep decrease in the returns differential as against the U.S.. This, alongside a low inflationary environment. In total for the period, the general government bond index rose by 3.5% (7.9% in 2012).

The trading in corporate bonds was to a large extent derived from the trading trend in government bonds, alongside an increase in demand for more risky 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 decline during the period.

	Change during the year	
Index	2013	2012
General bonds	5.4%	8.8%
General Government bonds	3.5%	7.9%
Shekel Government bonds	4.0%	7.0%
Linked Government bonds	3.0%	9.4%
General Corporate bonds	8.9%	10.2%
Linked Corporate bonds	9.5%	10.3%
Shekel Tel-Bond	5.6%	7.2%

The raising of capital through corporate bond amounted in 2013 to NIS 36.7 billion, a decline of 7.5% as compared with 2012. Of this amount, bond issuance to institutional bodies amounted to NIS 2.2 billion, as compared with NIS 5.8 billion in 2012.

The bonds daily trading turnover amounted to an average of NIS 4.34 billion, an increase of 6% compared with 2012. On the other hand, the daily trading turnover in short-term loans (MAKAM) recorded a decline of approx. 9% amounting to an average of NIS 579 million.

THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of the financial asset portfolio held by the public increased during 2013 by 9%, amounting at the end of December to NIS 2.96 trillion. Developments in the asset portfolio during the reviewed period reflected growth in all classes of assets, with some 60% of the growth deriving from the increase in the value of equities (in Israel and abroad).

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

	As at December 31	
	2013	2012
Shares	24.7%	21.7%
Non-linked assets	33.5%	35.1%
CPI linked assets	31.4%	32.5%
Foreign currency assets	10.3%	10.7%

PRINCIPAL ECONOMIC DEVELOPMENTS IN JANUARY-MARCH 2014[1]

The International Monetary Fund updated upwards in January 2014, the growth forecast for 2014 to 3.7%. On the other hand, the global trade forecast was lowered to 4.5%. This, compared to forecasts from October 2013, of 3.6% and 5%, respectively.

Economic activity indicators in the U.S., published during the reviewed period, were weak and mixed leaning towards weak. However, a part of the weakness has been attributed to bad weather existing at the end of 2013 and the beginning of 2014. The moderate improvement continued in the economy of the Eurozone. On the other hand, the indicators for economic activity in China pointed to a slowdown in the growth rate.

The reviewed period was characterized by increasing concern regarding a crisis in the developing markets, both from the financial aspect and the geo-political aspect. In particular, the political instability in the Ukraine led to increased tension with neighboring Russia. These concerns were reflected in a steep devaluation of the local currencies and falling prices on the capital markets in developing countries. As an immediate response to the crisis, and in order to stabilize exchange rates, several central banks have increased interest rates, including Turkey, Russia, India, Brazil and South Africa.

The inflationary environment in the U.S. and in the Eurozone continued to be moderate. Concurrently, the expansionary monetary policies of these economies continued. In the U.S., the new Governor of the FED noted that the overall developments in the labor market (not only the unemployment data) will be examined upon the continuation of the reduction in the quantitative expansion. In addition, the Governor of the FED expressed full confidence in the policy of the FED under the former Governor, including the reduction of purchases, thus she has alleviated concern on the markets regarding a possible change in the monetary policy. In the Eurozone, on the background of the low inflation rate, forecasts increased for a further lowering of the interest rate or a quantitative expansion.

Trading on the global equities markets was conducted mainly on the background of the crisis in the developing markets, mixed macro-economic data in the U.S., on the one hand, and the announcement by the new Governor of the FED, on the other hand, alongside the continuing economic recovery in the Eurozone. In total for the period, the S&P 500 index rose by 1.6%, while the German DAX index fell by 2.8% and developing markets index fell by 4.7%. The exchange rate of the U.S. dollar recorded a weakening trend against most of the leading currencies. In particular, the dollar has weakened against the Euro (by 0.5%), the Japanese Yen and the British Pound. The CRB commodities index rose during the reviewed period by 9.2%, with a 3% rise in the price of oil (of the WTI type) in particular. The long-term U.S. government bonds recorded during the reviewed period a steep decline in returns.

Indicators of economic activity in Israel published in the reviewed period were mostly positive. In particular, an improvement in exports and in industrial production has been noted. The integrated index of the Bank of Israel rose in January by 0.3% (a high rate of increase as compared with prior months). The annual inflation rate in January recorded a surprising decline and amounted to 1.4%. Residential units prices, which are not included in the CPI, continued to rise.

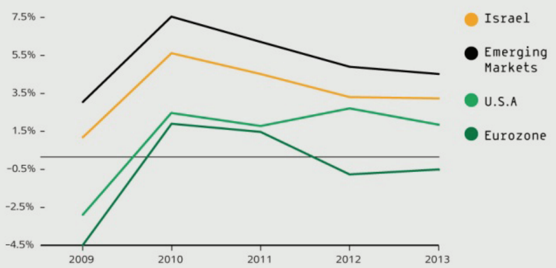
The monetary policy continued to be expansionary, when the interest rate remained at the level of 1% in the months of January and February, being unexpectedly reduced in February to a level of 0.75%. Among the factors supporting the decision to lower the interest rate were concerns regarding the low inflation rate, the strengthening of the Shekel and the slowdown of economic activity. Furthermore, in order to cope with the strengthening of the Shekel, the Bank of Israel has purchased significant amounts of foreign currency.

During the reviewed period, trading in the Shekel against the U.S. dollar was volatile, though in total for the period it remained unchanged. The Shekel weakened against the Euro by 0.8%. Share prices on the Tel Aviv Stock Exchange recorded volatility, when in total for the period, the TA 100 and the TA 25 index rose by 4.9% and 2.8%, respectively. Long-term non-linked government bonds recorded a drop in returns. It should be noted that during the period the returns on the Tel-Bond 60 index fell, while the spread against government bonds fell slightly.

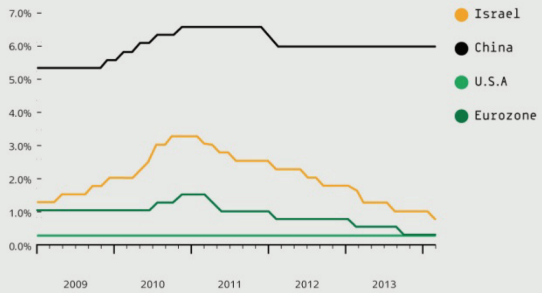
---

[1] All the data in this chapter refer to the period from January 1, 2014 to March 11, 2014.

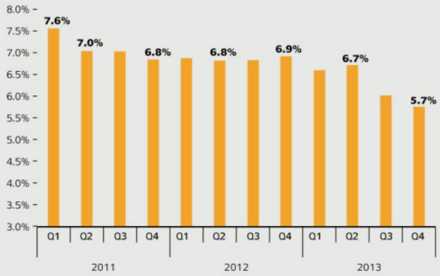
GDP - Annual Growth Rate



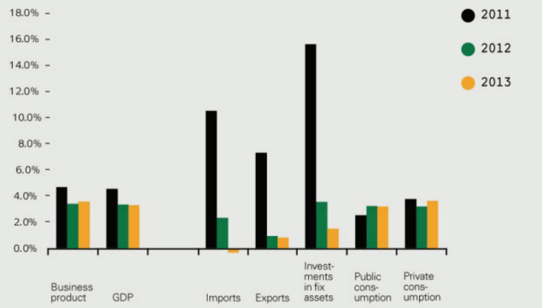
Central Bank Interest Rates in Selected Countries



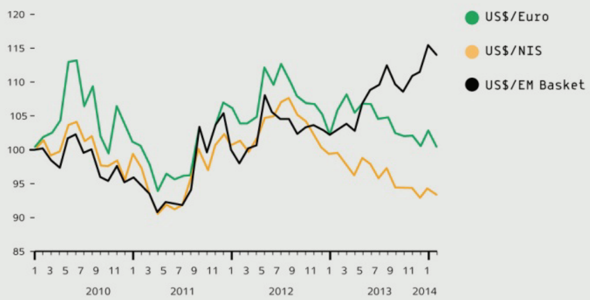
Israeli Quarterly Unemployment Rate



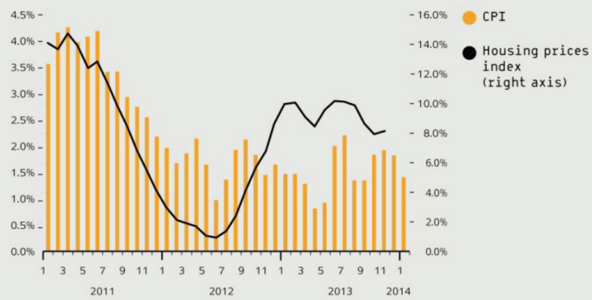
GDP Growth in Israel



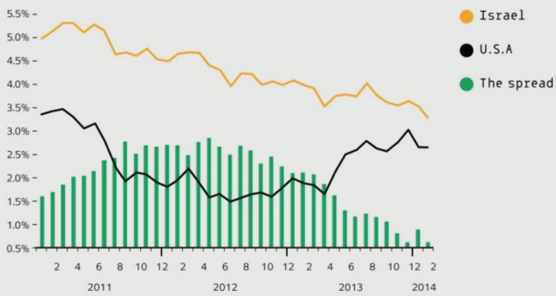
Exchange Rate-Index, January 2010 = 100



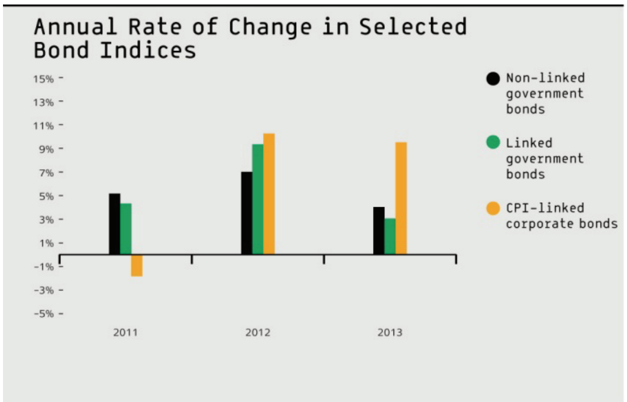
Annual Change Rate in CPI and Housing Unit Prices

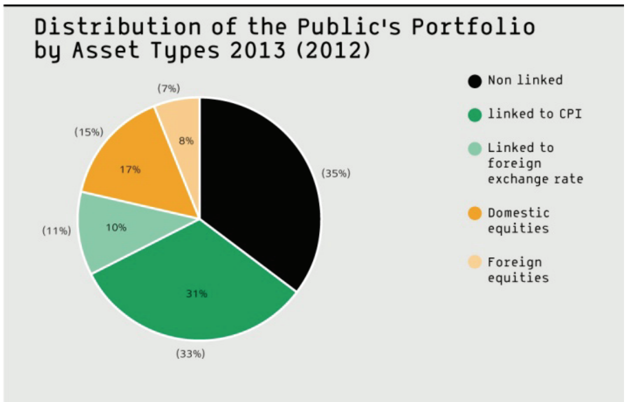


Return on long-term Government Bonds of U.S. and Israel and the spread between them



Leading Share Indices in Selected Countries - December 2010 = 100 Points





LEGISLATION AND SUPERVISION

GENERAL

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, to the extent that these have an extraterritorial effect relating to its operations.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank’s said operations.

Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).

Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc.

In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, liquidation and receivership laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.

The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority and the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance. These entities perform, from time to time, audits at the Bank and its subsidiaries relating to various fields of operation.

The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.

A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.

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

BANKING LAWS

THE BANKING ACT (LEGISLATION AMENDMENTS)

On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein.

Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. Among other things, an instruction has been determined according to which voting on the appointment of directors shall take place only at the annual meeting of shareholders or at a meeting of shareholders convened with the approval of the Supervisor of Banks; an instruction limiting to three years the period of office of a director who is not an external director, and to nine years on a cumulative basis, of the period of office of such a director; and an instruction according to which the number of directors who are to be replaced in each year shall not exceed one half of the number of the acting directors.

According to the Law, a statutory committee is to be established for the appointment of directors in a banking corporation. In the case of a banking corporation not having a core controlling interest, the committee shall propose candidates at each general meeting of shareholders for office as directors, in a number equal to the number of open positions on the board of directors plus one more candidate of each class.

In the case of a banking corporation not having a core controlling interest, candidates for office as directors may be proposed to the general meeting of shareholders by the committee as well as by anyone holding more than two and one half percent of a certain class of means of control in the corporation, and by a group of holders numbering two or three holders, each one of them holding over one percent and not more than two and one half percent, and together not less than two and one half percent and not more than five percent, of a certain class of means of control (hereinafter : "group of holders").

A shareholder holding more than one percent of a certain type of means of control of a banking corporation not having a core controlling interest, is required to report his holdings to the banking corporation and to the Supervisor of Banks, and the banking corporation is required to report to the public any shareholder holding over two and one half percent of a certain class of means of control in the banking corporation. The duty to report to the public shall apply also in the case of a shareholder holding more than one percent and up to two and one half percent of a certain class of means of control in the banking corporation, if the said shareholder agreed to such reporting to the public, and if he refuses to be reported, he shall not be permitted to join a group of holders for the purpose of proposing to the general meeting of candidates for office as directors.

The Bank`s articles have been amended following the Act, in order to modify them to the possibility that the Bank would operate as a banking corporation having no core controlling interest. (For details regarding the amendment of the Bank's articles, see "Amendment of the Bank's Articles - Instructions regarding the appointment of directors" in "Board of Directors and Management").

DOCUMENT OF PRINCIPLES REGARDING THE DECENTRALIZATION OF THE CORE CONTROLLING INTEREST IN A BANK

On July 11, 2013, the Supervisor of Banks published a document of principles regarding the decentralization of the core controlling interest in a bank. The document is intended to regularize the process of sale of the core controlling interest of a bank in a decentralized manner, so that following the sale the bank will operate with no core controlling interest. The principles are designed to ensure that the former controlling shareholders will not continue to control the bank in practice, despite the withdrawal of the control permit, considering the fact that during the transitional period the former controlling shareholders

may hold a significant rate of means of control in the bank. The document of principles determines various restrictions applying to the rights of the controlling shareholders in the transitional period in which the core controlling interest will be decentralized, among other, regarding the acquisition of means of control, the appointment of directors and the distribution of dividends. The document states the general principles for the decentralization of the core controlling interest of a bank, though any approach in the matter will be examined by the Supervisor on its own merits for the purpose of granting a specific holding permit for the transitional period until the decentralization of the core controlling interest.
For convenience purposes, the principles document is available on the Bank's Internet site.

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.

BANKING ACT (SERVICE TO CUSTOMER)(AMENDMENT NO.19)(NOTICE TO THE CUSTOMER AS TO THE INSTIGATION OF ACTION WITH RESPECT TO A LOAN) BILL, 2012

On March 3, 2014, the Knesset passed the second and third reading of the Bill. According to the proposed Bill, a banking corporation shall not demand the immediate repayment of a loan and shall not institute legal proceedings against a customer in respect of non-compliance with the terms of a loan, unless notice in writing of such action is delivered to the customer, by personal delivery, at least 21 business days prior to taking action. In this notice, the bank has to explain to the customer the implications of such collection proceedings as well as detailing the outstanding balance of the debt, the rate of interest on the loan, the amount in arrears and the manner of its computation and the commissions charged in respect of its immediate repayment. A banking corporation is not required to deliver a notice, as stated, if the delivery of such notice creates a real concern of damaging the collection ability of the banking corporation.
In February 2014, the Supervisor of Banks issued a Draft amendment of Proper Conduct of Banking Business Directive No. 453 in the matter of third party guarantees to a banking corporation. According to this amendment, a banking corporation that wishes to bring a loan for immediate repayment, or to start legal proceedings against the borrower, has to deliver to the guarantor of the loan a notice in writing, by registered mail, 21 days in advance.

ANTITRUST

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

Following a new and comprehensive examination the Antitrust Commissioner decided, on November 5, 2008, to grant a conditional exemption from a binding arrangement in respect of the arrangement regarding the joint holdings and operations of the five large banks in Automatic Bank Services Ltd. ("ABS") and Bank Clearing Center Ltd. ("BCC"). The exemption was in effect for three years from date of the Commissioner's decision.
The exemption was provisionally extended in November 2011, March 2012, May 2012, September 2012 and May 2013. 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" in "Activity of the Group

according to principal segments of operation"). 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 BCC for a period of three years. Within the framework of the said extension, it has been determined that the banks and the BCC shall take any action required in order to allow every banking corporation being a member of the inter-bank clearing house related to the Bank of Israel and to its customers, access to clearing services for debits and credits and to bank document transfer services provided by the BCC. Access shall be given under terms that will not be less attractive than those provided by the BCC to the banks. It has been further determined that commissions in respect of the services as above, charged by the BCC to each recipient of such services shall be identical, unless a difference exists in the direct cost of providing the service.

CONSORTIUM AGREEMENTS FOR THE GRANTING OF CREDIT

The Antitrust Commissioner informed on February 28, 2011, that she had reached the conclusion that the consortium arrangements for the granting of credit, made between banks and insurance companies and between themselves, should continue to exist, and she detailed the conditions, which subject to their existence, she does not intend to enforce the provisions of the Antitrust Law, 1988 upon the said arrangements. The announcement extends the effect of prior announcements issued by the Commissioner with respect to the consortium arrangements, with certain changes, for a period of two years. On February 26, 2013, the Commissioner announced of the extension of the announcement for a period of an additional year, until February 28, 2014, unless further announcement is issued before the end of this period.

On February 27, 2014, the Antitrust Authority announced the extension of the notice for an additional period of four months, until June 30, 2014, or until the issue of another notice, whichever is earlier.

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

PROHIBITION OF MONEY LAUNDERING

The Prohibition on Money Laundering Law, 2000 (hereinafter - "Prohibition of Money Laundering Law") came into effect on August 17, 2000, under the power of which, Regulations and Orders have been enacted over the years. Also amended was Proper Conduct of Banking Business Directive No. 411, and the Supervisor of Banks issued clarifications and circulars in the matter. This set of legislation imposed upon banking corporations as well as on additional subsidiaries (like the company for Portfolio Management - Tafnit Discount Asset Management) identification, verification, reporting and record maintenance duties regarding customers and customer accounts managed by them. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

The Prohibition of money laundering Act (Amendment No. 10), 2012. On May 14, 2012, Amendment No. 10 to the Prohibition of Money Laundering Act was published, which relates mostly to the application of the money laundering rules also to traders in precious gems. This amendment will enter into effect upon the publication of an Order applying to traders in precious stones. Such order has not yet been published.

Prohibition of Money Laundering (Amendment No. 10) Bill, 2011. The Bill passed its first reading on December 2011, and transferred on to the Constitution, Law and Justice Committee of the Knesset for preparation for the second and third readings. The continuity rules were applied to this proposal in October 2013.

The essence of the Bill is the cancellation of the "turning a blind eye" exception included in the offence section relating to transactions in assets with the knowledge that they are forbidden, so that following the amendment, effecting such a transaction turning a blind eye to the fact that it is forbidden, would constitute an offence.

Prohibition of Money Laundering Act (Amendment No. 11) (Providers of business services) Bill, 2012. This Government proposed Bill passed its first reading on May 11, 2012, and was passed to the Constitution, Law and Justice Committee for preparation for its second and third readings. The continuity rules were applied to this proposal in October 2013.

Its main provision is applying the provisions of the Prohibition of Money Laundering Act to Lawyers, accountants, tax consultants, real estate brokers and providers of custodian services. All this with respect to certain operations of a financial nature.

Prohibition of Money laundering (Obligation for identification, reporting and maintenance of records by banking corporations for the prevention of money laundering and the finance of terror)(Amendment), 2014. This amending Order was published in the Official Gazette on February 2, 2014. It deals with a series of amendments to the Banking Order, 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.

Except for a number of instructions, most of the instructions of the amending Order will take effect after the end of six months from date of its publication.

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 December 11, 2016.

Prevention of Money Laundering (Provisional instruction), 2013. The Provisional Instruction establishes as a predicate offence, the felony of transmitting funds out of Israel on behalf of an infiltrator. 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 until June 11, 2015.

A joint announcement to the public made by several Regulators regarding the possible risks involved in decentralized virtual currencies. On February 19, 2014, a joint announcement to the public was made by the Bank of Israel, the Capital Market Insurance and Savings Department at the Ministry of Finance, the Taxation Authority, the Israel securities Authority and the Israel Money Laundering and Terror Financing Prohibition Authority, in the matter of the possible risks involved in decentralized virtual currencies (such as BitCoin). The announcement contains a recommendation to those who consider the use of decentralized virtual currencies to understand the characteristics of such currencies and to be aware of the unique risks inherent in their use, as well as exercise extra care and alertness. In addition, the announcement states that the said activity has a high risk coefficient regarding money laundering and the finance of terror, and therefore, banking institutions have to consider these factors within the framework of their risk management policy, including in regards to the reporting to the Israel Money Laundering and Terror Financing Prohibition Authority.

PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

The Prohibition on Terror Financing Law, 2005 (hereinafter: "Prohibition on Terror Financing Law"), came into effect at the beginning of August 2005 and further on was amended several times. This Law specifies directives prohibiting the finance of terror activities, and various regulations and orders have been enacted under it imposing on banking institutions additional duties of identification and examination of customers based on published lists of terrorist organizations and activists. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

Struggle against the Nuclear Program of Iran Bill, 2012 (hereinafter : "the Struggle Act"). The Act was published in the Official Gazette on August 5, 2012.

In accordance with the Act, the Committee of Ministers (established under it) has been empowered to declare a foreign entity as assisting Iran in the promotion of its nuclear program (hereinafter : "a foreign assisting entity") and such a corporation maintaining business relations with Iran (hereinafter : "corporation maintaining business relations with Iran"). Once so declared, the Act states a set of prohibitions relating to engagement with such parties as well as reporting duties and felonies constituting predicate offences.

The Struggle Act abolishes the Prohibition on Investments in Corporations maintaining Business Relations with Iran Act, 2008, and replaces it. The above provisions of the Struggle Act shall enter into effect upon entry into effect of the Struggle Regulations (see below). Furthermore, amendments to the Trading with the Enemy Ordinance were made by power of the Struggle Act, including intensification of the punishment for the felony of trading with the enemy. The amendments to the Trading with the Enemy Ordinance took effect upon publication of the Struggle Act.

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 (above and hereunder : "the Struggle Regulations"). The Struggle Regulations deal with the procedure, mechanism and declaration of a foreign entity as a factor assisting and an entity maintaining significant business relations with Iran. The Struggle Regulations have not yet been published in the Official Gazette. Upon formal publication, the relevant sections of the Struggle (as detailed above).

THE STRUGGLE AGAINST TERROR BILL, 2011

The Bill was published in the Official Gazette on July 27, 2011, passed its first reading on August 3, 2011, and the Continuity Provisions were applied to it on November 4, 2013. The Constitution, Law and Justice Committee of the Knesset is presently discussing the Bill for the purpose of preparing it for second and third readings.

The Bill regulates and extends the power of State authorities in everything relating to the struggle against terror and to the declaration of terror organizations.

The main issues dealt with by the Bill, are: extending the term "terror organization" to include also factions and groups as well as a super-organization; determination of a uniform declaration arrangement, to replace the existing declaration mechanisms; determination of a new category of "Terror felony", felonies unique to terror activities and which relates to the activities of terror organizations, both as to cases of support of terror organizations and cases of providing resources to these organizations, as well as non-reporting offences; a renewed regulation of forfeiture and foreclosure mechanisms; extension of police authority with respect to prevention of terror activities and the closing down of locations used for terror activities.

The Struggle against Terror Act will replace the Terror Prevention Ordinance and the Prohibition of Finance of Terror Act.

For details regarding certain aspects relating to money laundering prohibition, within the framework of the Increasing of Tax Collection and Enforcement Intensification Bill, see "Taxation" hereunder.

THE COMPANIES LAW AND CORPORATE GOVERNANCE

COMPANIES ACT (AMENDMENT NO. 20), 2012

On December 12, 2012, the Companies Act (Amendment No. 20) Bill, 2012 (the "Amendment") in the matter of the terms of office and employment of officers at public and corporate bonds companies, entered into effect. The Amendment is based on the recommendations of the Neeman Committee, established to examine private bills proposing the reduction in remuneration differentials in the economy. The Amendment imposes the duty on public companies to establish a remuneration committee and of adopting a policy with respect to the terms of office and engagement of company officers within nine months since date of the Act entering into effect, which, among other things, would relate to considerations and criteria detailed in the Amendment.

Within the framework of such considerations, a company should relate, among other things, to the objects of the company, attainments of goals, risk management, the officer's contribution to profits maximalization, the qualifications of the officer, remuneration differentials between officers and other employees and their effect on labor relations in the company, as well as the possibility of determining a ceiling for variable components. In addition, instructions have been determined in respect of considerations to be taken into account in determining retirement awards, as well as instructions regarding variable components comprising a part of the remuneration.

In accordance with the provisions of Amendment No. 20, the terms of office and employment of officers of the Bank require approvals, as detailed below: officers, excluding directors and/or the President & CEO, whose terms of office and employment are in line with the remuneration policy, require the approval of the Remuneration Committee and of the Board of Directors. Terms of office and employment of officersthat deviate from the remuneration policy require approval of the general meeting of shareholders by a special majority vote of shareholders who are not controlling shareholders, or who do not have a personal interest ("special majority vote").

The terms of office and employment of the President & CEO require the approval of the Remuneration Committee, the Board of Directors and of the general meeting of shareholders by special majority vote.

The terms of office and engagement of directors require the approval of the general meeting of shareholders by regular vote, unless these terms deviate from the remuneration policy, requiring approval of the general meeting of shareholders by special majority vote.

The Board of Directors may approve the terms of office and employment even if the general meeting of shareholders opposed their approval, provided that the Remuneration Committee and the Board of Directors resolve, on the basis of reasoned arguments, that approval of these terms, despite the opposition of the general meeting of shareholders, is for the benefit of the Bank.

As a result of the Amendment, the Board of Directors has established a remuneration committee, the composition of which complies with the requirements of the Amendment. For details regarding the approval of the remuneration policy with respect to the Bank`s officers, see "Remuneration policy for officers of the Bank" under "Remuneration of interested parties and senior officers and transactions with controlling shareholders" below.

SECURITIES LAW

IMPROVEMENT OF ENFORCEMENT PROCEDURES AT THE ISRAELI SECURITIES AUTHORITY (LEGISLATION AMENDMENTS) ACT, 2011

The Improvement of Enforcement Procedures at the Israeli Securities Authority (Legislation Amendments) Act, 2011 was published on January 27, 2011.The Act includes a reform in the enforcement authorities of the Israeli Securities Authority (hereinafter – "the Authority"). In addition to the enforcement authority already granted to it earlier on, the Act also grants the Authority administrative enforcement authority as regards individuals and corporations in respect of violations of the Securities

Laws, including the Securities Law, the Regularizing of Engagement in Investment Consultancy Law and the Mutual Investment Trust Law (hereinafter: "the Securities Laws").
The administrative enforcement empowers the Authority to adopt an array of enforcement measures, including the imposition of significant fines and monetary sanctions on licensed employees and company officers who violated their duties under the Securities Laws, removal from engagement in securities business, suspension of the license and indemnification of the party injured by the violation.
Furthermore, the Law requires the CEO of the corporation to supervise and adopt all reasonable measures to avoid violations by the corporation and its employees (hereinafter: "supervisory responsibility"). Violations, as above, constitute a breach of the supervisory responsibility, unless satisfactory procedures had been instituted by the corporation to avoid such violations, the CEO had appointed an officer on his behalf to supervise the existence of such procedures including training of the corporation's employees, and the CEO and adopted reasonable measures for the rectification of the violations and avoiding recurrence thereof.
The Law limits the possibility of insuring and indemnifying individuals and corporations in respect of sanctions imposed within the framework of the administrative enforcement process.
The Bank has installed and is maintaining a layout of procedures designed to ensure compliance with the law and regulations, inter-alia, the Securities Laws. Furthermore, the Bank appointed officers whose duty is to supervise compliance with the provisions of the law.
The Bank's Management and Board of Directors have approved a comprehensive plan of action, subjected to a timetable, for the formation of an internal enforcement plan with respect to securities, suitable for the Bank and for the Group, having regard to the criteria published by the Israeli Securities Authority on the matter and to the relevant regulatory requirements, taking into consideration to the procedures and processes existing at the Bank. In continuation of that stated above, the Board of Directors appointed a compliance officer responsible to the Bank's Chief Legal Advisor, adopted an enforcement policy and acted for the formation of an enforcement plan which is implemented at the Bank. In accordance with the said plan, the Bank and the group companies are acting towards the carrying out of the said plan.

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 29 to the financial statements.

U.S. LEGISLATION

Dodd Frank

A wide reform – the Dodd-Frank Wall Street Reform and Consumer Protection Act – was approved in the U.S. in July 2010. The Reform regulates the operations of banks and financial institutions in the U.S., as well as regulating the activity of financial institutions operating outside the U.S., the operations of which may be related to the U.S., including, among other things, as providers of financial services to Americans, or as operating through American brokers or having activity with American counterparties, etc.

Parts of the Reform have an influence on various activities of the Group, such as the Bank's dealing room operations in everything relating to activities having a U.S. relationship as stated. The dates of implementation of the legislation vary according to the various requirements stemming from the Law, as detailed below.

Following are several fields included in the reform:

Living Will. As part of the Reform, it is determined that foreign banking organization (FBO), the global total assets of which on a consolidated basis is in excess of US$50 billion, and which operate in the U.S., to prepare and submit to the U.S. authorities a plan of action, in respect to their entities operating in the U.S., a plan of operation - "living will" - in the case of insolvency of the parent company.

A plan of action, as stated, was submitted to the U.S. authorities at the end of December 2013. The Bank will be required to resubmit an updated plan of action in each year.

Volcker Rule. The Volcker Rule has been enacted within the framework of the Dodd Frank Reform, which, among other things is intended to restrict the activity of banks to "traditional" banking operations (the granting of credit and similar activities) and to prevent their exposure to risks related to investment activity having a higher risk potential. The two central restrictions imposed on financial institutions under the Volcker Rule are the prohibition on propriety trading in derivatives, securities and other instruments, and the prohibition on sponsoring activities or on investment in private equity funds, hedge funds and such, all this where a "U.S. factor" is involved in any of the above mentioned activities.

The instruction entered into effect on July 21, 2012, granting a period of two years for its implementation, until July 21, 2014. Final provisions of the Instruction were published in December 2013, within the framework of which the period of preparation was extended to July 2015. It is expected that during the period of preparation the financial institutions will devise a plan of action for the implementation of the instruction, in order to be ready for its full implementation at the end of the period.

The Bank is examining the effect of the legislation upon its operations and the changes that would be required (if at all) during the period of preparation.

Swap Rule. Constitutes legislation intended to regularize trading in non-marketable derivatives (OTC). According to this legislation, large participants in the market, considered "swap dealers" or "major swap participants", as such terms are defined in the legislation, will have to register with the U.S. authorities (SEC, CFTC). According to an examination made by the Bank, as of 2012, with respect to its derivatives operations, the Bank is not required to register, as stated. Another part of the legislation with respect to trading in non-marketable derivatives relates to changes in the manner of effecting the trade and clearing of transactions of this kind through engagement with a third party, who would perform the central clearing (CCP). The duty of central clearing in respect of certain derivatives with U.S. counterparties entered into effect in the course of 2013. In addition to the reform in the U.S., a parallel reform exists in Europe (EMIR), which is expected to take effect during 2014. The Bank has started preparations towards the operational and computer system changes that would be required in order to implement the legislation, to the extent that this would apply to the Bank's operation in derivatives.

FRB Assessments for Large Financial Companies. The U.S. Federal Reserve Bank issued in August 2013 an instruction according to which certain financial institutions included in the instruction (domestic and foreign) would be required to make an annual payment to the Federal Reserve Bank in respect of expenses incurred in the supervision of their operations. According to the criteria in the instructions, Discount Bank, as a bank holding company with total assets (on a consolidated basis) of over US$50

billion, is subject to the instruction and to the payment under it. The first notice of payment in respect of the year 2012 was delivered to the Bank at the end of 2013.
For details regarding changes in U.S. tax legislation, see under "Taxation" below.

VARIOUS LEGISLATION MATTERS

BILL INTENDED TO PROMOTE COMPETITION AND REDUCE CONCENTRATION, 2012

The Concentration Act, which is based on the recommendations of the Committee on Increasing Competition in the Economy, was published on December 11, 2013. The Act prescribes arrangements, which enter into effect on different dates. Within the framework of the Act instructions have been determined the aim of which is to create a separation between whoever controls a significant nonfinancial asset and whoever controls a significant financial asset. According to these provisions, a significant nonfinancial corporation as well as whoever holds over 5% of a significant nonfinancial corporation may not hold over 10% of a significant financial institution, and if that institution is a banking corporation not having a core controlling interest, a rate which is not in excess of 5%. In additions, restrictions have been set on simultaneous office of directors in significant nonfinancial corporations and in significant financial institutions.
According to the Act, a significant financial institution is a financial institution the total assets of which and of entities under its control and under the control of whoever controls the financial institution, exceed NIS 40 billion. The Act states that a list of significant financial institutions and of significant nonfinancial institutions will be published by the Concentration Committee.
The provisions of the Act include instructions the aim of which is to restrict the ability to control through pyramidal structures, in which a difference exists between the rights of the controlling shareholder in the equity and his voting rights. Furthermore, the Act includes amendments to the Companies Act applying to the procedures for approval of transactions made by public corporations with their controlling shareholders. According to these instructions, audit committees are charged with the duty to conduct a competitive process for the approval of transactions with controlling shareholders, and further duties have been imposed with regards to approval of transactions with controlling shareholders which are not negligible though not exceptional.
In addition, the Act includes instructions authorizing regulators to take into account competition and concentration considerations within the framework of processes for the allocation of assets by the State for essential infrastructure.
The transition period for realizing the restrictions on prohibition of holdings is six years. The Act is expected to have an effect on central factors in the economy, including the banks and their controlling shareholders.
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 35 to the financial statements.
For details regarding the possible implications of the Concentration Act on ICC, see "Credit Card Operations" under "Further details as to activity in certain products".

THE MONETARY LAWS BILL, 2011

On June 20, 2011, the Knesset passed the first reading of the Monetary Laws (Civil Codex) Bill, 2011. The Bill has been formed as a civil code regularizing the legal relations layout under the civil law. At this early stage, the effect of the Bill on the Bank is unclear. In April 2013, the Chairman of the Constitution, Law and Justice Committee of the 19th Knesset announced that it is his intention to establish a subcommittee that would promote the legislation of the act.

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.
According to the said regulations, the Bank is required to make accessibility adjustments with respect to services provided by the Bank to its customers. Among other thing, the said accessibility adjustments relate to the Bank's internal design branches; the Bank's service desks; the automatic devices at the disposal of the Bank's customers; the information provided to the Bank's customers; the Bank's call center; the Bank's Internet website; signposts at the Bank; auxiliary instruments that the Bank has to provide to its customers.
The Bank is preparing to meet the requirements of the Regulations, as detailed hereunder:
Preparations by the Bank. In accordance with the law, the Bank has appointed an "Accessibility Coordinator" whose duties are to lead and coordinate the accessibility operations at the Bank and serve as an address for any approach in the matter. Within the framework of these preparations, the Bank launched the "Discount Accessible" project, the object of which is to carry out accessibility modifications in accordance with the new regulations, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. Within the framework of this project, a multi-annual plan has been formed for the completion of accessibility modifications. Moreover, a supreme steering committee has been established headed by two members of Management, the duty of which is to manage and supervise the progress of implementing the provisions of the law.
In July 2013, the Bank engaged an association specializing in the matter of access to handicapped persons whose professionals accompany the Bank and advise on the modifications required for easy access, including the defining of requirements for the elimination of existing accessibility differences as regards all relevant services and installations.
Modification of service accessibility. All services requiring accessibility modifications have been mapped (such as: call center, Internet website, forms, automatic self-service machines, service and waiting stations, signposts, etc.) and the definition has started of the requirements for the preparations for their accessibility, with the assistance of accessibility consultants. In addition, a guidance program is presently being formed for the absorption of the accessibility subject by the staff of the Bank in general, and by the providers of service in particular.
Modification of building, infrastructure and environmental accessibility. A multi-annual plan has been devised for the accessibility of all the Bank`s properties, with the assistance of the accessibility consultants. A comprehensive review of all the Bank`s properties has begun, mapping gaps and defining contents in order to carry out the modifications required to make these properties accessible to disabled persons, in accordance with the Equal Rights for Handicapped Persons Regulations (Access modifications to a public place being an existing building), 2011.
In each new branch or renovated branch, accessibility modifications are being made in accordance with the Accessibility Regulations, including: ramps and wheelchair lifts, washrooms for disabled persons, service and waiting stations, adjustment of the height of ATM and information desks. In total, some seventy branches have been made accessible at various levels.
A similar project is in operation at MDB.

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 35 to the 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 and shall terminate as from the 2015 annual report and thereafter and as from the quarterly report for the first quarter of 2016 and thereafter, so that for example: the annual report for 2013 is published until March 20, 2014, and the quarterly reports in 2014 shall be published within fifty-five days from balance sheet date. The Bank is preparing for the implementation of the instruction, as stated.

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.

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", "Exposure to Risks and Risk Management" and "Human Resources" above.

ABUNDANCE OF LEGISLATION INITIATIVES

The year 2013, as its preceding years, was typified by an abundance of private law proposals (part of which supported by the Government) regarding the imposition of restrictions on banks (by law or by regulations under it) applying to various fields of activity, including: restrictions on the granting of credit, restrictions on the charging of commissions, restrictions on the payment and/or collection of interest, etc. These law proposals and other similar ones, if passed, might have a material adverse effect on the activities of the Bank and its subsidiaries and on their results of operations in the future. The Bank is not able to evaluate which of these law proposals will in fact be passed and what would be the scope of their effect.

The year 2013 was also characterized by an abundance of regulatory directives, both Proper Conduct of Banking Business Directives and various instructions regarding reporting to the public the issued by the Supervisor of Banks. To these were added instructions by the Commissioner of the Capital Market, Insurance and Savings of the Ministry of Finance and by the Securities Authority, as to issues under their control, and the decisions taken within the authority of the Antitrust Commissioner. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Regulation risks" under "Exposure to risks and risk management".

ADDITIONAL ISSUES IN THE DESCRIPTION OF THE GROUP

STRUCTURE OF THE BANKING GROUP

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2013, amounted to NIS 9.0 billion, compared with NIS 9.2 billion on December 31, 2012, a decrease of 1.9%.

Following is the distribution of net income (loss) by the Group's structure:

	Contribution to Group's results		Contribution Disregarding the effects of hedge of investment	
	2013	2012	2013	2012
	In NIS millions			
Banking Activity:				
Commercial banks:				
In Israel - the Bank (including branches overseas)	288	176	(1)279	(1)177
Mercantile Discount Bank	182	191	182	191
First International Bank(2)	38	56	38	56
Overseas - Bank offices	138	115	(1)147	(1)114
Other Activities:				
Israel Credit Cards	92	152	92	152
Israel Discount Capital Market and Investments	114	56	114	56
Other financial services	22	56	22	56
Net income	**874**	**802**	**874**	**802**

Notes:

(1) The Bank in Israel created in the past, a surplus of liabilities in foreign currency, constituting hedge for the Bank's investment in IDB (Swiss), including hedge on the tax component, with the aim of avoiding exposure to fluctuations in the exchange rate of the shekel against the Swiss Franc. In the Bank's Statement of Income in Israel, income and expenses arising from exchange rate differentials on the surplus of liabilities mentioned above are presented under the item "non-interest financing income". This income and expenses is taken into account in the calculation of provision for taxes. Income and expenses arising from exchange rate differentials on overseas investments are presented under the item "Bank's share in income of investee companies, net of tax effect".
This method of treatment effects the presentation of the Bank's after-tax income and on the contribution of the overseas extensions to net income.

(2) For details regarding the provision for impairment of the Bank's investment in shares of FIBI and changes in the provisions for taxes in respect of the Bank's share in the earnings of FIBI, see Note 6 c and e to the financial statements.

MAIN INVESTEE COMPANIES

At the end of 2013, 17.63% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and 19.29% were assets of overseas consolidated companies and branches. The contribution to the net income by the consolidated companies in Israel amounted to NIS 411 million in 2013 (NIS 409 million in 2012). The contribution to the net income by overseas consolidated companies amounted to NIS 138 million in 2013 (NIS 115 million in 2012), and the contribution to the net income by affiliated companies amounted to NIS 38 million in 2013 (NIS 103 million in 2012).

The total contribution by both domestic and overseas investees companies to the Bank's net results amounted to NIS 586 million in 2013, compared with NIS 627 million in 2012, a decrease of 6.5%.

Disregarding the effect of the hedge of the investment in an oversea subsidiary, net of the tax effect, the contribution of both domestic and overseas investees to the Bank's net results in 2013, would have been NIS 595 million, compared with 626 million in 2012, a decrease of 5.0%.

Following are the main developments in principal investee companies.

DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled 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.

Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB New York may not be sold by Bancorp unless the Bank has given its consent. The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

	In US$ millions		
Balance sheet items	December 31, 2013	December 31, 2012	Change in %
Total assets	9,604	9,984	(3.8)
Total credit	4,448	3,938	13.0
Total deposits	6,474	6,440	0.5
Total equity	794	838	(5.3)
Ratio of capital to risk assets	13.9%	15.4%	
Income statement items for the year	2013	2012	
Net income attributed to the Bank's shareholders	9	43	(79.1)
Return on equity	1.1%	5.3%	

For details regarding investments by IDB New York in mortgage backed securities, see "Development of assets and liabilities" above and Note 3 to the financial statements hereunder.

Distribution of dividend. In the months of December 2013 and January 2014, the Board of Directors of Bancorp decided on the payment of a dividend to Discount Bank in a total amount of US$80 million.

Examination of the possibilities for the sale of holdings in Bancorp. Within the framework of the examination of various alternatives for enlargement of the capital base, the Bank examined in 2013 possibilities for the sale of holdings in Bancorp, in whole or in part. In this respect 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), 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 ("DBLA"), a subsidiary of IDB New York, 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.

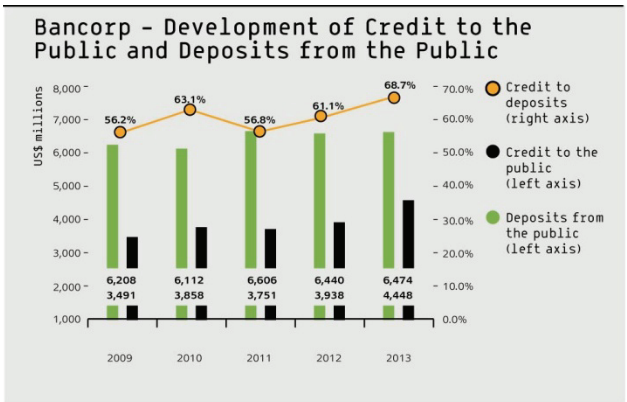
As stated in the immediate report dated January 28, 2014 (Ref No. 2013-01-142320), the Bank had decided not to accept any of the proposals regarding Bancorp. The Bank also decided to continue the examination of the sale of DBLA.

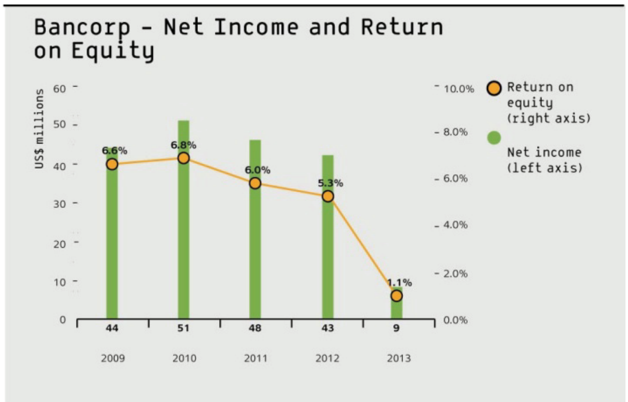
The information detailed in the said immediate reports is given herewith by way of reference.

The results of Bancorp for 2013 had been affected by the decision to sell DBLA. As a result of the said decision, a provision for taxes in the amount of US$28 million, was recorded in the fourth quarter in respect of the share of Bancorp in the earnings of DBLA for prior years, and due to the presentation of the investment in DBLA in the financial statements of Bancorp as a discontinued operation, in consequence thereof, an expense of US$3 million in respect of the presentation at fair value of bonds in the portfolio of DBLA. With the elimination of the said amounts, the profit of Bancorp would have totaled approx. US$ 40 million.

The contribution of the Bank's investment in Bancorp to the Bank's net results reached a profit of NIS 147 million in 2013 (including an addition in respect of a provision for taxes of NIS 83 million), compared with NIS 121 million in 2012 (after deducting provision for taxes of NIS 36 million).

The difference between the net earnings of Bancorp and the contribution to earnings of the Bank`s investment in Bancorp derives from the said provision for taxes in respect of the share of Bancorp in prior years' earnings of DBLA, payable to the U.S. Tax Authorities upon the sale of DBLA. According to a tax agreement between the Israeli Tax Authorities and the Bank in Israel, the taxes in respect of the said earnings had already been paid by the Bank in Israel, and accordingly, the said provision for taxes would be offset as provided in the said tax agreement.





MERCANTILE DISCOUNT BANK LTD.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank. At the end of 2013, MDB operated through 80 branches (79 branches at the end of 2012).

	In NIS millions		
Balance sheet items	December 31, 2013	December 31, 2012	Change in %
Total assets	28,446	26,534	7.2
Total credit to the public, net	17,792	16,629	7.0
Total deposits from the public	23,964	22,254	7.7
Total equity	1,931	1,889	2.2
Ratio of capital to risk assets	14.6%	15.0%	
Income statement items for the year	**2013**	**2012**	
Net income attributed to the Bank's shareholders	182	191	(4.7)
Return on equity	9.7%	10.8%	

The ratio of capital to risk assets. On January 25, 2011, the Board of Directors of MDB resolved that the total capital adequacy ratio of this bank shall not fall below 13%.

The principal factors affecting the business results. The decrease in income in 2013 was affected, inter alia, by an increase in the amount of NIS 74 million in non-interest financing income, stemming mainly from an increase in the amount of NIS 15 million in the gains on realization of bonds, from a decrease in the amount of NIS 20 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 45 million in the gains on fair value adjustments of derivative financial instruments. The increase in commission income of NIS 12 million also had an effect. On the other hand, an increase in the amount of NIS 40 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, as well as from the increase in expenses for credit losses on a group basis, by a decline of NIS 24 million in other income and an increase of NIS 43 million in other operating expenses, mainly derived 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.

Distribution of dividend. In 2013 Mercantile Discount Bank has distributed a dividend in the amount of NIS 120 million (2012 – NIS 150 million).

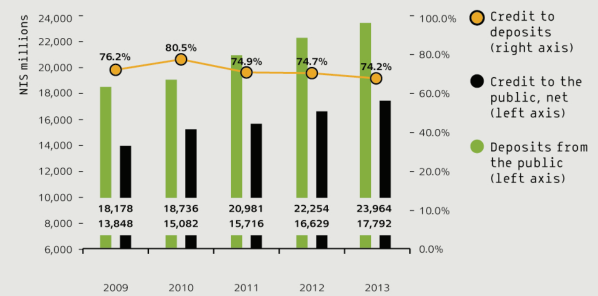
Extending the operations of the back-office operating unit. Following the plan for business focusing and improving efficiency implemented by Mercantile Discount Bank (MDB) in the years 2011 and 2012, MDB has launched a strategic plan that changes the operational concept of the bank branches and its head office operating units. Within the framework of this plan, operational activities previously performed by the bank`s branches, have now been moved and are concentrated in designated back-office operating units. The plan is designed to provide the bank with advantages regarding the operating and service field. Implementation of the plan involves changes in work procedures at the branches and in the back-office operating units, and will involve investment of input required for the impartment of the new concepts and work procedures. The plan is intended to be conducted gradually at all branches of MDB during the years 2014-2015.

Audit performed at Mercantile Discount Bank in the matter of compliance with the "Prohibition of the financing of terror". On May 3, 2012, the Bank of Israel delivered to Mercantile Discount Bank an audit report in the above matter, following an audit performed in the second half of 2010. The report included findings relating to various aspects of the work performed by the units engaged in this field, most of which had been rectified during the period from date of the audit.

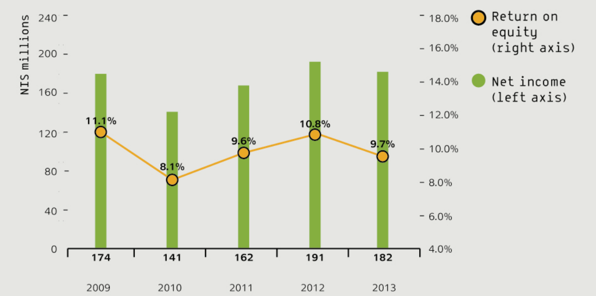
Following Mercantile Discount Bank's response to the findings of the report, a response which specifies, inter alia, actions taken to correct the deficiencies, on June 20, 2013 the Bank of Israel has notified Mercantile Discount Bank of his decision not to take additional steps with regard to this matter.

For details regarding an appeal filed against the decision in the motion for a declaratory judgment in the matter of charging the debtor's account with violation interest, see Note 19 C item 12.8 to the financial statements. For details regarding lawsuits and motions for approval of the lawsuits as class action suits, in the matter of: the format for granting loans guaranteed by the State, in the matter of commission regarding the handling of credit and collateral, a unilateral increase in the interest rate on credit taken within an approved credit facility, the charging of commission with respect to the conversion of foreign currency, see Note 19 C, items 13.5, 13.8, 13.9 and 13.11, to the financial statements.

Mercantile - Development of Credit to the Public and Deposits from the Public



Mercantile - Net Income and Return on Equity



ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2013, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First international Bank held the balance of the rights in ICC.

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	December 31, 2013	December 31, 2012	Change in %
Total assets	9,589	9,149	4.8
Total equity	1,078	1,046	3.1
Ratio of capital to risk assets	16.2%	16.8%	
Income statement items for the year	2013	2012	
Total Income	1,113	1,118	(0.4)
Net income attributed to the Bank's shareholders	132	209	(36.8)
The contribution to the Bank's business results	92	152	(39.5)
Return on equity	12.1%	17.8%	

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 34 B 3 to the 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.

The ratio of capital to risk assets. On February 27, 2011, the Board of Directors of ICC adopted a policy according to which, the total capital ratio to risk assets of the company shall not fall below a rate of 15%.

Distribution of dividend. During 2013, ICC distributed dividends in the amount of NIS 100 million (the Bank's share is NIS 72 million) (2012 – NIS 291 million and NIS 209 million, respectively; 2011 – NIS 195 million and NIS 140 million, respectively).

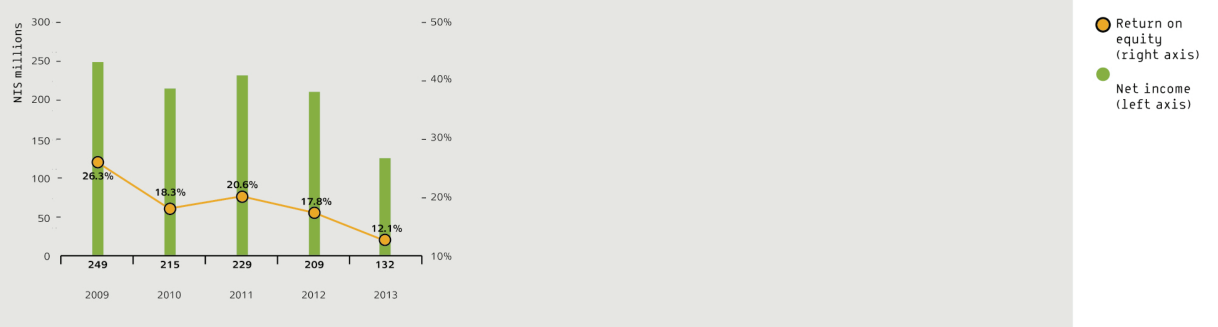
Audit at ICC regarding "The Implementation of Prohibition of Money Laundering Law". An audit report was received by ICC on June 20, 2010, in which were detailed deficiencies found during an audit, which prima facie constitute a violation of various provisions of the Law. The Supervisor of Banks informed 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 the police investigation and the seizure of documents and computer material of ICC, see Note 34 C to the financial statements.

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 and Note 34 to the financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, with respect of the following matters: the withdrawal of money from ATMs (the withdrawal there from was approved in January 2014), the granting of credit by means of the "You Active" charge card (the withdrawal there from was approved in January 2014), the marketing of gift cards and the charging of excess amounts in respect of refueling of vehicles, the granting of credit by means of the "Active" credit card, see Note 19 C to the financial statements items 12.10, 12.14, 13.3, 13.7 and 13.10 respectively.

ICC -Development of Net Income and Return on Equity



FIRST INTERNATIONAL BANK OF ISRAEL LTD.

The First International Bank of Israel Ltd. ("FIBI") is an affiliated company of the Bank. As of December 31, 2013, the Bank held 26.45% of its 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, as a result of its instructions, as from March 13, 2014, FIBI is no longer an affiliated company of the 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 "Material agreements" below and Note 6 E (1) to the financial statements. In

accordance with the provisions of the agreement, the Bank deposited with a Trustee shares which grant it voting rights in excess of 11.09%.
On June 26, 2013, FIBI's shares were moved to the TA-25 index.

	In NIS millions		
Income statement items for the year	2013	2012	Change in %
Net income attributed to the Bank's shareholders	570	577	(1.2)
The contribution to the Bank's business results[(1)]	38	56	(32.1)
Return on equity attributed to the shareholders	8.6%	9.5%	

	December 31, 2013	December 31, 2012
Ratio of capital to risk assets	14.96%	14.94%

Footnote:
(1) Including an amount of NIS 42 million, updating the computation of the provision for tax in respect of the Bank's share in the income of FIBI, following receipt of updated data.

Provision for impairment. For details regarding the provision for impairment in respect of the Bank`s holdings in shares of FIBI, see Note 6E (3) to the financial statements.
Dividend. On June 24, 2013, FIBI distributed dividend in a total amount of NIS 200 million (the Bank's share is approx. NIS 53 million). On February 3, 2014, FIBI distributed dividend in a total amount of NIS 100 million (the Bank's share is approx. NIS 26.5 million).

For details regarding lawsuits and motions for their approval as class action suits, filed against FIBI with respect to the following matters: the charging of commission on withdrawal of cash through ATM machines (the withdrawal there from was approved in January 2014), withdrawal of money from ATMs in respect of commission rates, the value date attributed to payments made by borrowers directly to the debt execution office, an argument regarding a binding agreement between the banks, the charging of a commission with respect to foreign currency conversion and transfer operations, format for granting loans guaranteed by the State, commission regarding the handling of credit and collateral, operations in contradiction of a "transaction permit" (the withdrawal there from was approved in January 2014), see Note 19 C to the financial statements, items 12.10, 12.9, 12.13, 13.2, 13.6, 13.5, 13.8 and 14, 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.
For details regarding an appeal filed against the decision in the motion for a declaratory judgment in the matter of charging the debtor's account with violation interest, see Note 19 C item 12.6 to the financial statements.

ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.

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

Balance sheet items	In NIS millions December 31, 2013	December 31, 2012	Change in %
Total assets	1011.2	855.5	18.2
Total equity	227.4	121.6	87.0
Income statement items for the year	**2013**	**2012**	
Net income attributed to the Bank's shareholders	106.2	59.7	77.9
The contribution to the Bank's business results[1]	113.9	56.0	103.4

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

The income in the years 2012-2013 was affected mainly by different realizations – see "Non-Financial Companies Sub-Segment" above.
During 2013, DCMI, through a subsidiary, participated in 73 public offerings of securities of which one with underwriting and in 10 private placements with a total volume of approx. NIS 24.4 billion (24 public offerings and 12 private placements with a total of approx. NIS 9.9 billion in 2012), and in two brokerage transactions (2012 – two brokerage transactions). Of the said issues in 2012, one private transaction of a total amount of NIS 1 billion was made by the Discount Group.

DIVIDENDS

The Bank has not distributed dividends to its shareholders since 1996, excluding the distribution of dividend in October 2008 in the amount of NIS 250 million, and except on the Bank's cumulative preference shares, in an annual amount of £24 thousand (see Note 13 B and E (3) to the financial statements), which the Bank distributes each year. The main limitation affecting the Bank's ability to distribute a dividend in the recent years was the capital base limitation.
For details regarding the limitations set in the Supervisor of Banks' directives, see Note 13 E (2) to the financial statements.
Distribution of dividend. The Bank's Management believes that it would not be possible to distribute a dividend in 2014.

FIXED ASSETS AND INSTALLATIONS

BUILDINGS AND EQUIPMENT

At the end of 2013, the investment in buildings and equipment amounted to NIS 2,696 million, compared with NIS 2,962 million at the end of 2012, an increase of 9%.
Most of the premises on which the Bank's business is conducted in Israel are owned directly by the Bank or by its auxiliary corporations.
The total office space at the Bank’s disposal at December 31, 2013, was approx. 172 thousand square meters, similar to the end of 2012. Of this area, approx. 115 thousand square meters were freehold property and approx. 57 thousand square meters leasehold property (2012: approx. 116 thousand square meters were freehold property and approx. 56 thousand square meters leasehold property). At the end of 2013, approx. 80 thousand square meters served the Bank’s branches and the remainder served the head office. In 2012, approx. 86 thousand square meters served the Bank’s branches.
For details as to the Bank’s investments in buildings and equipment, see Note 7 to the financial statements.

INFORMATION AND COMPUTER SYSTEMS

GENERAL

The information and control systems stand at the core of the Bank's operations and comprise the backbone on which the Bank’s

operations are based. The Bank's data processing system is a central computerized system composed of main frame computers located at the Bank's computer centers and work stations at the branches and at the head office units. The central system is currently based on IBM computers.
Some 12,000 work stations (PC's) and 1,700 servers are installed at the branches and at head office units, providing service to both internal and external customers.
Direct banking services are provided by the Bank through a variety of lanes: Internet, information stations, automatic teller machines, computerized vocal response and more. These services are interfaced with the central computer in order to receive and update data, by way of designated servers using advanced data protection technologies.
Over 500 information stations are available to customers providing also self service operations and a wide variety of services - "Discount Information Station".
Most of the various computer systems serve both the Bank and MDB.
Over the years the Bank has developed efficient, stable and effective computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems, within the framework of the "Ophek" project, are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, all subject to budget limitations and strategic plans.
For details as to the cost of in-house development of computer software, see Note 7 H to the financial statements.
Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, EMC and CISCO. These companies have engagements with the Bank through their representatives in Israel.

LOCATIONS OF THE OPERATION

The Bank's mainframe systems are located at two different sites, in various cities in the Greater Tel Aviv area. The fact that the two systems are located at a distance from one another adds to the survivability of the Bank's information systems. The Bank's two computer sites are connected by optical fibers in two different routes. These sites also house the disc systems of the companies EMC, IBM, netapp, kaminario and Oracle, cassette robots, central printers and additional peripheral equipment required for the Bank's operation. Needless to say that this equipment is also backed-up at the two sites. The branches and the head office units are connected to the computer center by two communication lines. Both lines are active at the same time and provide a band width of 3MB for each site. In the event of failure, one line provides back-up for the active applications on the other line, and vice versa.

BACK-UP AND DISASTER RECOVERY

The Bank operates by the "hot backup" method. This means that the computers in both locations are updated concurrently as to the transactions conducted at the Bank's branches, so that in case of failure at the central computer site, the secondary location begins operations without losing any entry.
In addition, an infrastructure was established for a third copy of data, in a third location, under the "Hosting" model.
At this stage, a full third copy of production data of the MF computer exists, and it is planned to transfer to it the data of critical systems of the open environments.

The Bank is acting to upgrade the capabilities of the direct banking operations at times of disaster. The upgrade will enable direct banking to operate even when the Bank's telephone service center is out of service.

DATA PROTECTION

The importance of survival and availability of IT is steadily increasing in view of the great technological development in recent years and its implications on the Bank, in view of the cyber threats that are growing in severity and frequency, and in view of the growing volume of use of information technology products in contrast to manually operated products. Therefore, the Bank views the protection of data as a primary goal and invests vast resources in order to protect the data on hand.

The principal risks involved in damage to data protection is the damage to privacy and confidentiality of the Bank's information, as well as to its customers and employees, the realization of cyber threats (see "IT risk management" under "Exposure to risks and risk management" above), hostile use of information by users of the system, disruption of data stored on the system, damage to the availability and survival of systems and information, damage to the Bank's business and to its reputation.

Data protection at the Bank is governed and regulated in accordance with various statutory provisions, including the Privacy Protection Law and its regulations, the Computer Law, the Supervisor of Bank’s Proper Conduct of Banking Business Directives, and particularly Directive No. 357, standards, data protection policy as approved by the Bank’s Management and Board of Directors, SOX and Basel.

The Bank’s links to the Internet for any purpose whatsoever, is separated from the central banking system providing information to Bank employees, who perform banking activity on an ongoing basis. Thus, the exposure to the risk of hostile activity against real data at the Bank is significantly reduced.

Data protection activity is implemented in accordance with a strategic plan, approved by the Bank’s Management and Board of Directors.

The systems and projects that are under development and that are under maintenance are closely supported by professional instructors.

The Bank operates continuously a data protection center the purpose of which is to identify risks and breaches in the data protection system (see "IT risk management" above). Furthermore, as part of the internal audit operates a unit which specializes in the field of information systems, which conduct a current audit of these matters.

In accordance with the risks outline and in accordance with Directive No. 357, risk surveys and intrusion checks are performed with the prescribed frequency, and as a result thereof mitigation measures and mandatory reporting are implemented. Access to data and privilege levels are controlled by means of designated staff and systems for authorization and password administration, with the administration processes and management tools undergoing major improvement and reorganization.

The Bank takes ongoing action to intensify awareness and improve the organizational culture from data protection aspects, which include, among other measures, training, distribution of policy documents, manifestos and marketing aids. The Bank has established the majority of the actions and processes in procedures, and the Bank’s Data Protection Unit is involved in the approval of all of the Bank’s procedures in order to ensure the early identification of actions that create data protection risks.

PRINCIPAL PROJECTS EXECUTED IN 2013 AND ARE EXPECTED TO CONTINUE DEVELOPMENT IN 2014

1. MIS – the establishment of a management information system for decision making functions in the Bank, including management indices and the measurement of organizational performance. The project began in 2010.
2. CRM – a "connected" system has been developed, presenting in an effective and friendly manner the image of the customer and supports the management of the sales processes to customers of the Bank. The disposition of the system will be completed in 2014.
3. Merger of operators – according to legislative instructions, the Bank is required as from January 2014, to manage all

provident funds and further education funds of whatever class, under one operator. Assignments, upgrading and modification of systems have been made for the absorption of the additional funds.

4. Direct channels – the development of all the direct channels continued in 2013, with a focus on the Internet channel and cellular phone applications. Investment in development will continue also in 2014, with a view of providing advanced services in the various channels to customers of the Bank.
5. Back-office computerized system – the Bank has started the process of choosing a solution for the replacement of the core and back-office systems for securities transactions, in order to challenge the growing competition and the erosion in commission income. The new system will allow efficiency and flexibility on the part of the Bank.
6. Credit system – the start of a process for the replacement of existing systems by one system providing a response for new business and regulatory requirements regarding everything involving the management of credit at the Bank.
7. Projects designed for compliance with regulatory requirements, such as prohibition of money laundering, new bills.

The Bank’s budget for 2014 in respect of projects for the development of information systems, including for information system development projects, amounts to NIS 273 million. This, compared with NIS 265 million in 2013.

The contents of the above section constitutes a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank’s business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carryout the Bank’s plans at date of publication of the reports.

INVESTMENTS AND EXPENSES IN RESPECT OF THE INFORMATION TECHNOLOGY SYSTEM

Banking corporations are required to disclose, as from the annual report for 2012, investments and expenditure relating to the information technology system (within the meaning of this term in Proper Conduct of Banking Business Directives).

Expenditure in respect of the information technology system includes payroll and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.

The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.

The allocation of payroll and related costs is based upon attribution to subunits, allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D(12) to the financial statements.

It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

	December 31, 2013				December 31, 2012 *			
	Consolidated							
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses in respect of the information technology system as recorded in the statement of income:								
Payroll and related expenses	169	95	24	288	131	77	23	231
Acquisitions or license fees not capitalized to assets	102	5	-	107	96	4	-	100
Outsourcing expenses	43	14	3	60	49	16	5	70
Depreciation expenses	399	87	9	495	348	97	3	448
Other expenses	39	23	78	140	58	23	35	116
Total	**752**	**224**	**114**	**1,090**	**682**	**217**	**66**	**965**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	78	-	-	78	88	-	-	88
Outsourcing costs	143	-	-	143	160	-	-	160
Acquisition or license fee costs	27	-	4	31	22	-	-	22
Equipment, buildings and real estate costs	18	58	5	81	24	89	10	123
Total	**266**	**58**	**9**	**333**	**294**	**89**	**10**	**393**
Balances of assets in respect of the information technology system:								
Total amortized cost	918	248	154	1,320	1,059	210	122	1,391
Of which: in respect of salaries and related expenses	676	-	-	676	780	-	-	780

*reclassified

INTANGIBLE ASSETS

Trade marks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart and slogans such as "People oriented banking", etc.

Following the commencement of competition in the VISA credit card field, ICC started to develop a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trade marks in Israel, including "ICC", "Cal" "Cal Choice", "WWW.Card" and "Cal fix".

Furthermore, the Bank's subsidiary companies own trade marks, related brand names and slogans registered for the purpose of their business and marketing operations.

Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trade marks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.

The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. Diners and Diners International signed agreements in March 2007 granting Diners the license to make use of trade marks and to issue credit cards, to open accounts and the exclusivity to provide services to customers in Israel until the year 2017. The said agreements are renewable for periods of five years each at the discretion of Diners International.

ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.

Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.

Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees. Thus, among other things, ICC holds three data bases of registered customers holding VISA, Diners (through Diners) and MasterCard credit cards, as well as of traders accepting these cards.

TAXATION

GENERAL

The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 18.0% of the payroll expense and of the profit, respectively.

TAX ASPECTS OF THE DIRECTIVE REGARDING IMPAIRED DEBTS

An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual writeoffs will be recognized in the two years following the year in which the allowance was made. It was also determined, that allowances in respect of "retail debts" made until December 31, 2010, and not yet recognized under the previous agreement, shall be deductible tax wise, in five equal yearly amounts, starting with the tax year 2011. It was also determined that allowances for credit losses recorded upon the initial implementation of the directives of the Supervisor of Banks and taken directly to retained earnings as of January 1, 2011, shall be deductible tax wise in five equal yearly amounts, starting with the tax year 2011.

A QUALIFIED INTERMEDIARY (Q.I.) STATUS

The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

CHANGES IN THE U.S. TAX LEGISLATION

New tax laws have been enacted in the United States intended to apply to financial institutions outside the U.S. within the framework of the Foreign Account Tax Compliance Act (FATCA). According to these rules, financial institutions outside the U.S. will be obligated to enter into an agreement with the U.S. Tax Authorities, under which, among other things, they will have to disclose and report to the U.S. Authorities about accounts defined as U.S. Accounts. The above rules are expected to have implications on the Bank's activities involving customers having connection to the U.S.

The provisions of the FATCA are intended to take effect in mid 2014, gradually over a number of years. Under this Act, financial institutions outside the United States will have the obligation to submit reports regarding accounts that are defined as "U.S. accounts". Duties for tax deduction, documentation and identification regarding such accounts will be imposed, and such financial institutions will have to enter into a binding contract regarding these accounts with the U.S. Internal Revenue Authorities (IRS).

A financial institution that will not abide by the said regulations will be exposed to a significant sanction of deducting tax at the rate of 30% from payments to the bank and/or its customers due from U.S. sources.

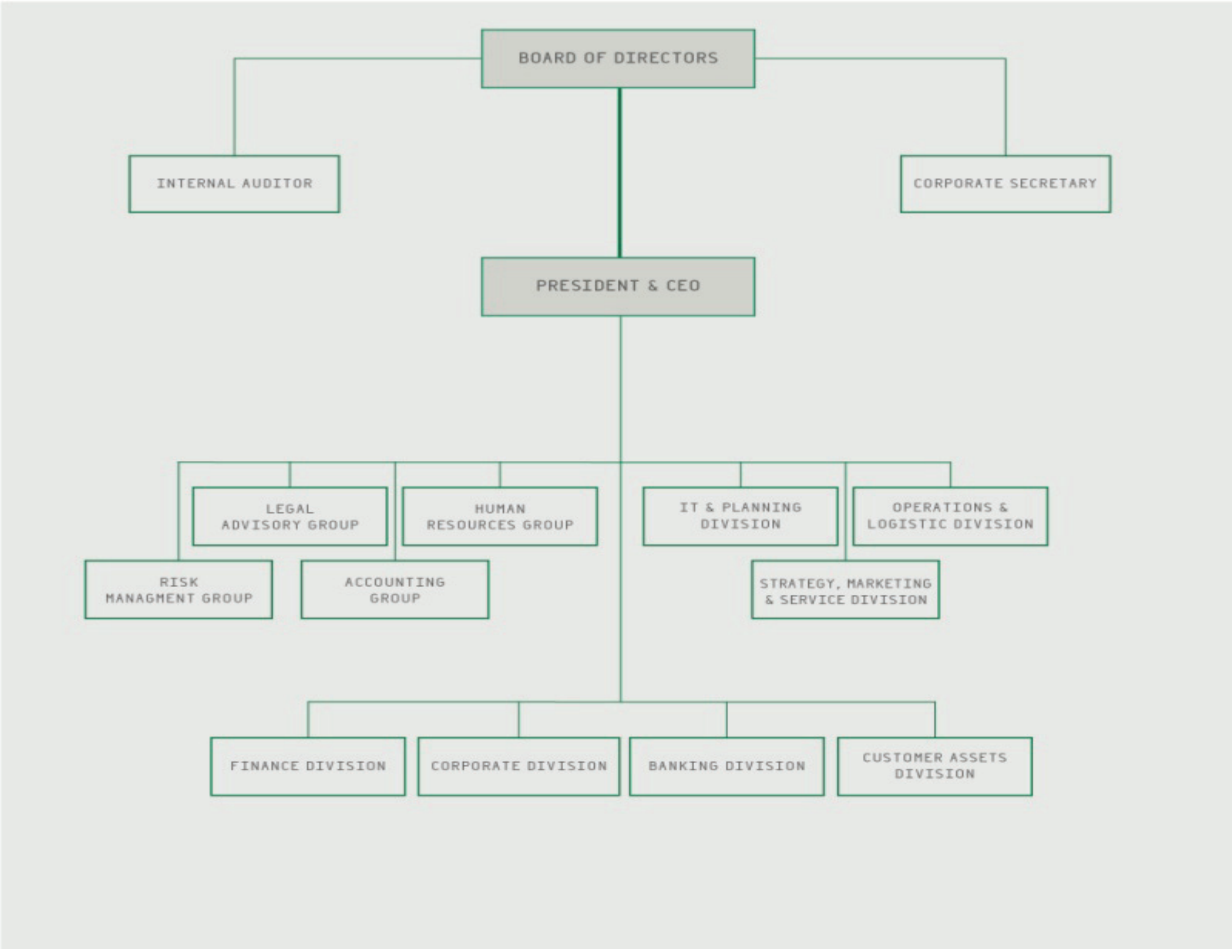
Preparations by the Group for the implementation of the Regulations. The Bank is in the midst of the preparation process, at Group level, for complying with the timetable in respect of the instructions becoming effective, and even now, is taking various actions in order to comply with the provisions of the FATCA instructions, including determination of policy and procedures, computerized preparations and guidelines regarding activity with customers.

Establishment of an inter-office team for the examination of the implementation of the instructions. On August 2, 2012, the Ministry of Finance announced the establishment of a team, headed by the Commissioner of State Revenues that will examine the implementation in Israel of the FATCA provisions, including examination of the possibility of their implementation by means of an agreement between the State of Israel and the United States, which might facilitate the implementation by financial institutions and will recommend a proposed outline. The team includes representatives of the Ministry of Finance, the Bank of Israel, the Securities Authority and the Ministry of Justice.

For additional details regarding taxation, see Note 29 to the financial statements.

HUMAN RESOURCES

Organizational Structure Chart



It should be noted, that until the appointment of the head of the Strategy, Marketing and Service Division in place of the head of the division who retired from office, responsibility for the operation of the divisional units has been provisionally placed with a number of Management members.

LABOR FORCE AND PAYROLL COSTS

There were 6,155 employees in full-time positions in the Bank in Israel (not including the Bank's branches abroad) at the end of 2013, compared with 6,153 at the end of 2012. The average monthly number of employees, based on full-time positions, in the Bank in Israel (not including overseas branches) dropped in 2013 and amounted to 6,060, as compared to 6,164 in 2012, a decrease of 1.7%.

There were 9,877 full-time positions in the Group in Israel and abroad at the end of 2013, compared with 9,942 at the end of 2012, a decrease of 0.7%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2013, was 9,834, compared with 10,016 at the end of 2012, a decrease of 1.8%.

Following are the labor force data of the Group and the Bank, in terms of positions[(1)]:

	As of December 31		Monthly average in	
	2013	2012	2013	2012
The Bank in Israel	6,155	6,153	6,060	6,164
Domestic subsidiaries	2,938	2,990	2,980	3,047
Group total in Israel	**9,093**	**9,143**	**9,040**	**9,211**
Overseas branches	34	34	34	33
Overseas subsidiaries	750	765	760	772
Group total overseas	**784**	**799**	**794**	**805**
Group total overseas and Israel	**9,877**	**9,942**	**9,834**	**10,016**

The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

Following are details of the cost per position, in NIS thousands[(1)]:

	2013	2012	Change in%
The annual average direct cost per employee position in the Bank in Israel	253	224	12.9
The total annual average cost per employee position in the Bank in Israel	396	357	10.9
The average annual overall payroll cost per employee of the Group in Israel and abroad	368	344	7.0
The annual average direct cost per employee position in the Bank in Israel - Disregarding awards	231	223	3.6
The total annual average cost per employee position in the Bank in Israel - Disregarding awards	370	356	3.9
The average annual overall payroll cost per employee of the Group in Israel and abroad - Disregarding awards	345	337	2.4

(1) The payroll costs also include the cost of software house employees, as stated in the footnote to the preceding Table, less payroll costs capitalized to fixed assets.

As seen from the said Table, the increase in the average payroll costs derives, mostly, from a change in the provision for awards. Furthermore, the average cost has been affected by the provision in respect of wage agreements, recorded in accordance with the assessment of the Bank's Management.

HUMAN RESOURCES ACCORDING TO SEGMENTS OF OPERATION

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial: Non-Financial Companies	Financial: Financial management	Total
	For the year ended December 31, 2013							
Average number of positions in the segment	4,578	1,648	1,234	726	607	8	1,033	9,834
Of which: Management positions	639	249	291	163	132	4	232	1,707
	For the year ended December 31, 2012							
Average number of positions in the segment	4,746	1,603	1,215	749	588	7	1,108	10,016
Of which: Management positions	661	262	295	177	125	3	234	1,757

LABOR RELATIONS

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank’s management and the employees’ representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd. ", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter.

Within the framework of the collective labor agreements, signed in June 2011, the validity of the Labor Charter was extended until December 31, 2016, and it has been agreed that unless otherwise informed by one of the parties to the other party by notice in writing of up to three months prior to the said date, the validity of the Labor Charter will be extended for one additional year, being repeated in each year.

Rights of association. The Bank's tenured employees are organized within the framework of the national Employees’ Representative Committee. The Representative Committee is divided internally in such a way that employees at the clerical level are included in the Clerks’ Committee and authorized signatories and managers are organized under the Managers’ Representative Committee. Most of the issues are agreed and signed between the Bank’s management and the Employees’ Representative Committee. A retirees’ Committee also exists, under which the Bank's retirees are organized. The Bank assists the retirees' committee and allows it to conduct activities at the Bank premises in Jerusalem, Tel Aviv-Jaffa and Haifa.

Bank participation in the budget of the Employees’ Representative Committee. The Bank contributes monthly to the budget of the Employees’ Representative Committee, in an amount double the monthly amount contributed by the employees. Five out of the 21 Committee members are officers of the Committee engaged on the Committee on a fulltime basis and receiving a full salary. The other members of the Committee fulfill various positions in the Bank and serve as Committee members in addition to their regular work. In addition, the Bank provides office premises for the Committee’s use and covers the maintenance costs thereof.

PRINCIPAL CATEGORIES WITH RESPECT TO EMPLOYMENT CONDITIONS

The Bank's employees are classified into three main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements. The item in the collective labor agreement of June 2011, relating to the updating of grading and stages, changed certain of the employment terms of new employees engaged as regular employees as from January 1, 2012.

On December 31, 2013, there were 4,408 tenured employees in the Bank (December 31, 2012: 4,325 tenured employees). The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period.

As of December 31, 2013, the Bank`s tenured employees numbered 471, employed under a new employment agreement in accordance with the collective agreement of June 2011.

Temporary employees. The engagement terms of temporary employees are mainly regulated in a number of special collective labor agreements, which specify their terms of employment. In the labor agreement of June 2011 in the matter of the extension of the validity of the Labor Charter, the maximum temporary engagement period was shortened from five years (with the possibility of extension of even up to seven years in special cases), to two years (this excluding employees engaged as tellers, concept branch and direct banking employees, whose maximum employment period remained five years). In an agreement dated September 12, 2013, the temporary employment period of these employees has been extended by one additional year, and it now amounts to three years (the agreement is valid for five years).

Temporary employment may be terminated at any time, at the discretion of management. On December 31, 2013, there were 1,685 temporary employees in the Bank (December 31, 2012: 1,733 temporary employees), of which, 411 employees engaged by the Bank (December 31, 2012: 441 employees) and known as "computer temporaries". These employees are engaged in the IT field, and in accordance with an agreement dated 2002 between the Bank's Management and the representative committee of employees, may be engaged in a temporary status for a period of up to seven years. The item in the collective labor agreement of June 2011, regarding the engagement of computer employees, increased the quota of temporary computer employees which the Bank may engage, from the previous number of 350 to 750 employees.

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, which precludes the Labor Charter and the collective labor agreements for these employees. Employees engaged under a personal contract include members of the Bank's management, part of the information technology staff and a defined and specified agreed list of position holders, mainly senior personnel. As of December 31, 2013, the Bank employed 93 personnel (including members of management) under personal employment agreements (December 31, 2012: 102 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. As of December 31, 2013, some 8 manpower company personnel were employed by the Bank (as of December 31, 2012: 38 manpower company personnel).

As of December 31, 2013, some 283 software house personnel were employed in the Bank. These employees are engaged mainly in software development tasks (as of December 31, 2012: 391 software house personnel).

Following is a summary of employment data in the Bank in the various categories and the changes therein:

Employees	Tenured employees, personal contracts and members of management[1]	Total temporary employees[1]	Manpower company employees	Software house[2]	Total
December 2011	4,853	1,722	6	613	7,194
December 2012	4,427	1,733	38	391	6,589
December 2013	4,501	1,685	8	283	6,477
Difference (December 2013 vs. December 2012)	74	(48)	(30)	(108)	(112)
Difference (December 2012 vs. December 2011)	(426)	11	32	(222)	(605)
Positions					
December 2011	4,918	1,676	2	560	7,156
December 2012	4,470	1,789	26	368	6,653
December 2013	4,533	1,734	5	284	6,556
Difference (December 2013 vs. December 2012)	63	(55)	(21)	(84)	(97)
Difference (December 2012 vs. December 2011)	(448)	113	24	(192)	(503)

Notes:
(1) Including the positions of Bank employees the cost of which has been capitalized to fixed assets: 2013 – 226 positions, 2012 – 256 positions, 2011 – 370 positions.
(2) Including the positions of software house employees of which has been capitalized to fixed assets: 2013 – 175 positions, 2012 – 243 positions, 2011 – 463 positions.

DEVELOPMENTS IN LABOR RELATIONS

Negotiations regarding wage agreements. The Employees Representative Committee has submitted its demands for supplementing the wage addition 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 2013. Since then, negotiations have been renewed, however, until now, the parties have not yet reached an understanding.

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. Upon renewal of the negotiations in respect of salary in October 2013, 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. Certain of these sanctions have been virtually implemented at a number of centers, resulting in partial work and even total shutdown by employees and activities. Proximate to the commencement of office of the new President & CEO, the employee representative committee announced the suspension of the sanctions, and the negotiations continue. Proximate to the date of printing of this report, the employee representative committee announced the renewal of the sanctions.

NEW COLLECTIVE LABOR AGREEMENTS

Agreements signed in 2011. Seven collective labor agreements were signed in 2011, among which:

- **A wage and selective supplement agreement for the years 2011-2012.** According to the agreement all regular employees will receive an advance payment of an average of 6.5%, starting with January 2012. The agreement states that a discussion regarding the completion of the wage supplement will be held following the publication of the Bank’s financial statements for the year 2012.

  Furthermore, a supplemental payment was determined for employees of the clerical level in respect of the year 2009, at the rate of 0.75%, with effect from January 1, 2011. The maintenance, until April 1, 2013, of industrial peace on the subject of wages was also agreed upon.

- **An agreement regarding the updating of grades and stages and the determination of maximum wage** for new employees enrolled or employees granted the status of regular employees, beginning January 1, 2012, for the clerical and managerial levels, including a change of part of the employment terms of existing employees of the "regular" status (including the cancellation of certain components, such as jubilee award, tuition fees for children of employees, refund of health insurance payments, etc.).
- **Agreement in the matter of the application of a pension arrangement** to new employees, as defined herein, which include temporary staff being employed by the Bank at date of signature of this agreement, as well as to permanent employees and employees during their trial period who choose this arrangement of their own free will.
- **Extension of the validity of the labor code** until December 31, 2016. The agreement has also determined the shortening of the process for settling disputes between the parties to the labor code, and if not settled by the parties, submission of the dispute to an agreed arbitrator. The agreement further states that as from January 1, 2012, the employment period for employees of a "temporary" status shall be shortened to two years, and the trial period for employees of a "regular" status shall be shortened to one year, with an option for extension for an additional year subject to consent of the employees' representative committee.
- **Agreement regarding the employment of tellers and direct banking employees** enrolled as from January 1, 2012, for a period of up to five years, in accordance with employment terms stated in the agreement.
- **An agreement regarding temporary computer employees** that allowed the increase of the quota for employees engaged as temporary computer employees from 350 to 750.

Agreements signed in 2012. An additional collective labor agreement was signed on February 15, 2012, according to which, the tellers agreement (see above) shall apply also to staff of the same position employed in the various "concept" branches.

A collective labor agreement was signed on July 17, 2012, with respect to the absorption and placement of twenty-three employees of the former Discount Mortgage Bank, who belonged to the managerial echelon of that bank. According to the agreement, the said employees will be employed by the Bank according to personal employment agreements.

An agreement with respect to the transfer of the permanent staff of DMB to the Bank. An agreement was signed on May 3, 2012, between the Bank, DMB, and the DMB's employee committee and the New Federation of Labor. The agreement states that following the merger, the permanent employees of DMB would be absorbed at the Bank as tenured employees. The Bank's Management is to offer beneficial retirement terms to tenured employees preferring not to be transferred to the Bank. Furthermore, the agreement states that employment of temporary staff of DMB will terminate upon the merger, though a small number of such employees will be absorbed at the Bank as temporary staff.

The agreement prescribes, inter alia, that the basic salary (as defined in the agreement) of a permanent employee of DMB, who is transferred to the Bank, will be adjusted to the salary table of a Bank employee (as defined in the agreement), subject to the terms specified in the agreement.

Agreements signed in 2013. The following agreements were signed in 2013:

- An agreement was signed on September 3, 2013, concerning the extension of engagement of employees within the framework of the project for the support of the community, which extended the temporary period of employment of employees having special needs, engaged by the Bank as part of the project, and whose period of employment was to be terminated in the years 2013 and 2014, by 3 additional years.
- An agreement was signed on September 12, 2013, concerning the extension of the temporary period of employment of temporary employees engaged by the Bank as from January 2012 and thereafter, from 24 months to 36 months (the agreement is valid for five years).

REDUCTION IN THE LABOR FORCE

Retirement Plan 2011. The program was put into operation at the end of October 2011, and terminated in March 2012. Within the framework of the plan, the retirees had the right to choose between receipt of a capital amount at date of retirement or of a monthly pension payment. Within the framework of the retirement plan 2011, 360 employees retired in the period to December 31, 2012 (four of which retired in 2011). For further details, see Note 16 g to the financial statements.

Conversion and reduction in the outsourcing workforce. In the years 2012-2013, the Bank took measures to reduce the employment of outsourcing staff by converting a certain number to a status of provisional computer staff. As a result of these measures, the workforce in this category was reduced by 108 employees in 2013 (2012 – some 222 employees).

Employee retirement following the merger with DMB. At date of the decision regarding the merger, the personnel of DMB numbered 463 employees. 104 employees retired from office in the period until completion of the merger. The remaining 359 employees were transferred to Discount Bank upon the merger. The employment of some 36 employees was terminated during the second half of 2012. 30 other employees, whose employment was supposed to be terminated, have been engaged by the "Telebank" unit, to fill the shortage in the workforce of this unit.

Early retirement plan at Mercantile Discount Bank. In 2012 Mercantile Discount Bank launched a voluntary retirement plan. Within the framework of the plan, 29 employees have retired at a cost of NIS 28 million.

EMPLOYEE REMUNERATION

The principal salary components include the basic salary which includes a seniority increment, representation and signature fees to each employee in accordance with his seniority and position.

The basic salary constitutes the basis for salary increments and for the payment of split working hours’ remuneration at the rate of 2.5% of the salary (to entitled employees only), shift remuneration (to entitled employees only), overtime, 13th month salary and long term service award. Likewise, there exists an additional payment at the rate of 4% under a collective agreement of January 2006, payable to those entitled to split-time payment. Part of the employee’s remuneration is linked to the CPI. in cases where the change in the CPI is a negative figure, the employees' wages are not reduced and the drop in the CPI is setoff against the rise in the CPI in following months. Employees are also entitled to various additional benefits. Bank employees are promoted by grades only and are also entitled to a long-service bonus equal to several monthly salaries plus additional vacation days, at the end of 20, 30 and 40 years of service in the Bank. A collective labor agreement dated November 22, 2007 specified that new employees shall not be entitled to "Jubilee vacation" as well as wage components in respect of nursery school and summer camp. The item in the collective labor agreement of June 2011, regarding the updating of grading and stages, changed the components and terms mentioned above, applying to regular employees engaged or converted to this status as from January 1, 2012. In addition, certain components have been cancelled in their respect and maximum salaries have been determined according to position and grading.

For some employees, payable overtime is subject to a prior approval by the employee’s authorized superior. The Bank does not have a computerized system for determining the number of hours actually worked by the employees ("time clock"), except in respect of part of the temporary employees.

Most of the Bank’s employees are entitled to convalescence in an amount significantly higher than the amounts provided by law. Employees are also entitled to accepted provident and further education funds contributions.

For the purpose of severance pay and provident fund contributions, the Bank includes employee’s basic salary, global overtime payment, 1/12 of the employee’s 13th month salary and other additional benefits.

Bank employees are also entitled to certain benefits after their retirement, which are similar to those to which regular employees are entitled.

The Bank is preparing for the required changes in provisions for severance compensation under the Expansion Order regarding the establishment of compulsory pension for every employee and under Amendment No. 3 to the Provident Fund Law, which are effective January 1, 2008.

According to the Expansion Order, the Bank is required to contribute for severance compensation on a personal basis and up to a maximum rate (as from January 1, 2014 onwards) of 6% of the employee's salary or of the average wage in the economy, whichever is lower. According to the Amendment to the Provident Fund Law, the Bank's contributions for severance compensation cannot be deposited in a central severance pay fund, as hitherto was the practice, starting January 1, 2008 in respect of new employees and starting January 1, 2011 in respect of other employees.

In accordance with the agreement from June 2011, the Bank provides for employee pension, as follows: employer contributions – 6% of the employees salary (including loss of ability to work where the employee elected executive insurance), minimum contributions by the employee – 5.5%, as well as a provision in the entire amount of severance pay at the rate of 8.33%, including the finality of the provision (according to Section 14 of the Severance Pay Act, concerning new employees – employees engaged as from June 2, 2011 - and existing employees, who chose this alternative, as from the date of choosing it). The Agreement further specified that each new employee shall be entitled to pension insurance starting with the first month of his employment, and also that existing employees (regular) will be entitled to change to the pension insurance arrangement, if they so decide.

Employee award (2011). On April 29, 2012, the Bank's Board of Directors approved, in respect of the financial results for 2011, an award to the Bank's employees, employed in 2011 and employed at date of the decision in the amount of an average one basic monthly salary.

Employee award (2012). No awards have been paid to employees in respect of the year 2012.

Employee award (2013). The financial statements include an adequate provision, based upon the decision of the Bank's Management, in respect of the employee award for the year 2013.

SPECIAL REMUNERATION TO MANAGERIAL PERSONNEL

Part of the managerial personnel is entitled to global overtime payment.

A managerial rank employee who has been promoted is entitled to a 5% salary increase (provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion and/or transfer). A managerial rank employee who has been transferred to another position is entitled to an increase of 2% to 7% of the salary according to the salary table, at management's discretion, taking into account the additional responsibility and/or the special managerial effort required for adaptation to the new position following the transfer, and provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion and/or transfer.

The item in the collective labor agreement of June 2011, regarding the updating of grading and stages, includes changes in some of the employment terms applying to new regular employees becoming Bank employees of this status as from January 1, 2012. In this connection, the average transfer payment has been reduced to 3% and maximum salaries have been determined according to classes in line with the accepted administrative grades at the Bank.

Staff members of the three most senior ranks at the Bank (Senior Executive, Assistant to the President & CEO, Senior Assistant to the President & CEO), are entitled to receive from the Bank a motor vehicle and a full funding of a home telephone line at that senior staff member's residence.

As at December 31, 2013, the staff of the managerial grade numbered 1,346 (December 31, 2012: 1,337 employees).

OFFICERS AND SENIOR MANAGEMENT MEMBERS GROUP OF THE CORPORATION

Members of this group of employees are subject to an advance notice period longer than the period set by the law, and to the period of the occupational limitation (between two to twelve months), in respect of which they are entitled to an adaptation grant (2-12 monthly salaries).

For details regarding a stock option plan for the Bank's senior officers, see Note 13 D to the financial statements.

REMUNERATION PLAN FOR MEMBERS OF THE BANK'S MANAGEMENT

For details regarding the remuneration plan for members of the Bank's management (2011-2013), see Note 16 I to the financial statements.
For details regarding the waiver by officers of the Group, of the award in respect of the year 2012, see Note 16 I 7 and Note 22 G 3 to the financial statements. The waiver by the officers, as stated, is estimated at NIS 18.6 million. (The said estimate assumes in certain of the cases that the qualitative index is similar to that of 2011, and that in other cases the quantitative indices had been weighted without the qualitative index).
For details regarding an award for the year 2013 and a long-term award in respect of the years 2011-2013, see Note 16 I 8 and 9 and Note 22 G 4 to the financial statements.

WORK ON THE DAY OF REST

The Bank's personnel on duty at the computer center and security personnel work on rest days as defined in the Work and Rest Hours Law, 1951. The work of computer workers on duty on such days requires a special permit obtained by the Bank and which is extended from time to time. The work of security personnel is performed in accordance with a general permit.

RETIREMENT OF EMPLOYEES

Following are details regarding the number of employees who retired from the Bank in the years 2011-2013:

The year	The total number of retired employees (including early retirement)	The number of employees who has elected early retirement
2013	94	8
2012	429	356
2011	59	5

The said Table reflects retirement data for the bank alone. For details regarding the scope of retirement among employees of DMB, see above.

LABOR RELATIONS OF THE PRINCIPAL SUBSIDIARIES

ICC. On December 21, 2011, ICC, the New General Federation of Labor and the national committee of ICC employees signed a special collective labor agreement, which specifies the terms of employment and the rights and duties of company employees (excluding certain employees to whom the agreement does not apply). Among other things, the agreement determines the right to long-service bonuses (Jubilee Bonuses) and to a onetime signing bonus.
The agreement shall remain valid until December 31, 2014, and will be renewed automatically each time for an additional period of three years, unless any of the parties will give notice to the other parties two month prior to the end of the period, of his wish to terminate or change the agreement.
Among other things, the agreement provides for an increase in salary for the year 2011, in accordance with the salary of the employee and with his relative period of employment, as well as for a selective annual increase in salary at an average rate of 3.5% for each of the years 2012, 2013 and 2014.
MDB. Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor statute" - and complementary collective agreements. These agreements determine, among other things, that wage terms, work and related terms shall be linked to those of Bank Leumi Le'Israel B.M.. The present agreement was renewed on December 31, 2011 and remained in effect until the end of 2013.
In accordance with the mechanism that had been determined for the updating of the labor agreements at Mercantile Discount Bank, the Management of this bank held discussions during 2013 and thereafter with representatives of the employees'

committee with a view of forming an agreed format for a labor agreement to apply in 2014. To date, no agreement has been reached by the parties regarding the format of the labor agreement for 2014. Notwithstanding, and despite the fact that since the end of 2013, the present agreement is no longer effective, negotiations between the parties are continuing and it has been agreed that once an agreement is reached it will apply retroactively as from January 1, 2014.

PROMOTING THE EMPLOYMENT OF ULTRA ORTHODOX JEWISH WOMEN

ICC operates a customer service call center in Modiin Illit, which employs approx. 170 ultra orthodox Jewish women and constitutes an integral part of the Private Customers Department. This service call center is suited to the needs of ultra orthodox Jewish women who live in the region. The call center was examined and is meeting business targets and measures, and combines in an integrative manner between the business needs of the organization and the customers and the personal needs of the center's female employees.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND ARRANGEMENTS

General. In addition to the labor charter, the various collective agreements existing from time to time, the Bank operates within the framework of laws and regulations applying to all entities in the economy. A short description of the principal restrictions applying to the Bank with respect to its labor relations is given hereunder.

Improvement of enforcement of labor laws. On June 19, 2012, the Intensification of Enforcement of Labor laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The Act specified an administrative enforcement mechanism, which includes warnings and the imposition of monetary sanctions on employers who violate labor laws, which will serve as an alternative for criminal indictments by power of labor laws. The law imposes extensive liability on employers with respect to their direct employees, as well as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties. The Act prohibits the engagement by entities ordering services and contractors supplying such services, in agreements which do not provide for basic wage terms for the personnel involved. The Bank is preparing in accordance with the requirements of the provisions of the law. In 2013 the Bank intensified the supervision over the outsourcing companies and hired the services of an independent accountant, who performs a monthly test audit as required by law, and deficiencies, if found, are being attended to accordingly.

Amendment 24 to the wage protection law, 1958. Amendment 24 to the Wage Protection Law came into effect on February 1, 2009, according to which an employer is required to provide his employees a monthly pay slip detailing the payment made to the employee. The amendment requires the pay slip to include certain details concerning the composition of wages. It is also required to state the number of days on which the employee actually worked, as well as the number of hours actually worked, including overtime, in accordance with the record keeping alternatives provided by the Law. The amendment set forth criminal sanctions and civil remedies.

Following the demand made by the Bank for a change in the manner of recording the attendance of employees at the Bank, as required by law, intensive negotiations have recently taken place with representatives of the employees, with a view of forming a collective agreement that would regulate the calculation of employee attendance in accordance with the provisions of the Hours of Work and Rest Act, including Amendment 24 to the Wage Protection Act. The said negotiations stopped due to a labor dispute and recently renewed (see above).

Ruling in the matter of forced retirement on grounds of age. In December 2012, the National Labor Court issued an innovative ruling with respect to the duty of employers to consider approaches made by employees facing retirement on grounds of age (67 years), who are interested in continuing their employment. In accordance with the said ruling, employers must consider approaches made by employees based on the personal circumstances of each employee and not only on the requirements of the employer. In actual fact, some 20 employees have already submitted such requests, and the Bank is preparing to act in accordance with the procedures required by the said ruling of the Court.

REMUNERATION POLICY IN A BANKING CORPORATION

In April 2009, the Supervisor of Banks announced that with a view of mitigating risks emanating from inappropriate incentive structures, banking corporations and companies under their control are required to adopt an appropriate remuneration policy. The policy is to be determined by the board of directors based on wide overall organizational considerations (total payroll cost, desired wage differentials between various employee grades, etc.) and on the principles detailed in the said document. The remuneration policy should be a general policy pertaining to all employees of a bank, special emphasis being put on the remuneration of senior members of management and of officers who influence the risk acceptance by the banking corporation. Banking corporations were required to examine existing employment agreements in light of the remuneration policy to be determined and to the extent possible, to act towards changing/updating agreements that do not comply with such policy.

In January 2010, the Bank approved a remuneration policy, which complies with the requirements included in the letter of the Supervisor of Banks of April 2009.

The remuneration plans for the Bank's Chairman of the Board and for the former President & CEO (see Note 22 F and I to the financial statements) and a remuneration plan for members of the Bank's Management (see Note 16 I) have been prepared in accordance with the principles of the remuneration policy adopted by the Bank. The remuneration plans formed in 2011 at ICC and at Mercantile Discount Bank, have also been prepared in accordance with the principles of the remuneration policy determined by the said subsidiaries.

The Bank has made preparations to implement the requirements that it is subject to as a result of Amendment No. 20 to the Companies Law (see "Legislation and Supervision" above). For details regarding the remuneration policy for officers, see below "Remuneration of interested parties and senior officers and transactions with controlling shareholders" and Note 16 L.

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 instruction states that, no later than June 30, 2014, banks have to approve a remuneration plan complying with the requirements of the instruction, and which would apply to all employees of the banking corporation and to all classes of remuneration.

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.

Within the framework of the preparations for the implementation of the instruction, the Bank acts towards the formation of a remuneration policy for key employees.

DEVELOPMENT OF HUMAN RESOURCES

Development of human resources at the Bank derived from the strategic focuses and reinforces the Bank's ability to address successfully its business and organizational challenges, through:

- **Management and leadership** – establishing, cultivating and strengthening the managerial backbone, throughout its extent, by developing managerial leadership that supports strategy, focusing on the customer and contributing to business performance (performance, profitability and value maximization) and guidance towards the cultivating and development of the human capital.
  (1) Long-term manpower planning - Managerial continuity ("bench depth") – an organizational process intended to secure a managerial cadre for the manning of key positions at the Bank, while lowering the risk level in the manning of key positions. The key positions in the Bank were mapped in 2013, including potential replacements and their readiness level, and also an outline of development plans for elimination of gaps has been defined (placement and training);
  (2) Development of acting managers – construction and maximum use of the workforce.
    - Academic enrichment for senior management of the Bank and of subsidiaries in the Discount Group as leaders of strategic subjects;
    - "Mofet" – The multi-annual personal development program was completed in 2013, in respect of a cadre of twenty-five managers, who have been identified as having the potential to fulfill senior managerial duties;
    - "Power 200" – The formation of a foremost leadership group from among cross organization medium level managers. Cross-organizational apprenticeship is particularly emphasized as leverage for the integration of values and capabilities in the Bank's organizational and managerial culture;
    - "An executive training room" – a practical-implemental exercise environment, subject focused, for the maximization of the variety managerial skills and qualifications of the Bank's managers;
    - "Branch Manager Forum" – a group experience development program for the improvement of managerial skills and leadership of branch managers;
    - Development of an organic team – development programs at the organic level were launched in 2013 for the formation of a team, strengthening of the managerial role concept and the development of management expertise and apprenticeship among the medium level managerial echelon in various units at the Bank;
  (3) Reserves – formation of the future managerial cadre
    - Training and classifying the reserves towards appointment for a role – "management reserve" (junior management) and "reserve for branch management" (middle management);
    - "Advanced banking" – a classifying development lane for the formation of a cadre having the potential for managerial roles at the branches;
    - "Horizons" - a development and training course for candidates for the position of branch manager.
- **Personal development** serves as a central layer of the management reinforcement, and is performed through a variety of methods for improvement of qualifications, evaluation and feedback:
  - Assisting and advising managers when assuming new duties and/or on the job managerial training;
  - The mentoring of managers and units undergoing change - Organizational diagnosis, development plans and consulting assistance to units in view of processes of change at the unit;
  - Developing organic teams – in 2013 intervention was carried out in several units.
- **Improving professionalism and preservation of the professionals**

- Position tracks – presenting a position development horizon and professional advancement in the central groups of engagement and in professional duties at the clerical level. The track vision includes the development possibilities map together with the knowhow contents and qualification requirements. The central track maps of the business divisions were intensified and improved in 2013, and a professional duties credit track has been formed;
- The assimilation of customer focus concept at the branch layout – a comprehensive training response regarding the following subjects:
  - The concept of managerial activity according to segments and customer focused initiating service;
  - The absorpation of sales and sales management skills into the managerial echelon and the branch bankers;
  - The "Discount Family" project – Instruction for branch managers as leaders of activity at their units, as well as the formation of a designated website in the employees' portal;
  - Referring general/personal calls to TeleBank – The training of service representatives and team heads of TeleBank and in the branches including guidance in the field.

- Training for segment managers and the managerial echelon at the branches regarding the subject of profitability;
- Reinforcement of professionalism of functionaries in the credit field: designated instruction improving the office concept and professionalism of all credit coordinators; instruction improving professionalism of branch managers and their deputies regarding the subject of credit; designated credit instructions for business bankers at the corporate division; improvement of credit instructions at all levels and positions;
- Training of mortgage representatives – instruction for service teams that serve also as mortgage consultants as well as instruction for the managerial teams at branches having a mortgage station;
- Administrative enforcement – a comprehensive instruction program in a mix of methods, for the integration of the subject. In 2013 training was applied to all investment consultants at the Bank. In addition, instruction sessions were held for the managerial echelon at the branches and for all bankers providing service to customers at all divisions of the Bank, and learning material in relevant matters has been distributed to all Bank employees;
- Compliance – training and fortifying the compliance officers. In addition training sessions were held for compliance trustees. Also put into operation was a guided framework for study and the sharing of dilemmas among officers responsible for integration and control, control managers and compliance officers. In order to integrate compliance at the Bank and strengthen the organizational awareness to the subject, a preventive communication process was put into action, which, among other things, included the distribution of a quarterly electronic newsletter in the subject for all Bank employees;
  - "Money laundering" – electronic instruction to all branch employees and designated learning material to tellers. Instruction to bankers of service teams (frontal instruction) and also to tellers and to new employees at the Bank head office (electronic instruction);
  - Strengthening the orientation towards the Bank and the banking industry – the improvement of knowledge and familiarity of employees making their first steps at the Bank, with the world of banking contents in general and with Discount Bank in particular.
- **Change management**

  Implementation of a multi-subject approach for the integration of change and its management in cross-organization strategic projects, while focusing on the human capital.

  A unified method for the management of change was devised and approved in 2013. In addition, during the past year an initial program was formed providing support for professional challenges facing the risk management group and its structure.

IMPROVEMENT OF SERVICE

The service concept of Discount Bank sees in the customer an individual who provides the Bank and its employees significance, work and a living. The Bank aspires to create for its customers a personal service experience, causing them to continue and choose it as their bank.

A training move continued in 2013 for the integration of the service concept in the Banking Division. Integration was combined into various projects, such as management by segments and referring calls to the Telebank. Concurrently, the move was completed with respect to private banking in Israel, for the integration of the service concept of the segment among all employees of the Division.

Measurement of the customer's experience. Measurement of the customer's multi-lane experience continued also in 2013 at the branches and investment centers. Measurement data is provided to the managers of the business units as soon as the findings are received and which constitute an infrastructure for the drawing of conclusions and analysis of strengths and weaknesses in providing response to customers. In cases where immediate intervention is required, the unit manager addresses the customer in providing a personal response. In addition, the response standard through direct banking has been updated, both in respect of the customer addressing the Bank by telephone and in returning a call to the customer who had contacted the Bank branches.

Handling complaints. The reduction in the number of complaints and the number of justified complaints were defined as a system objective also in 2013.

The focused effort in recent years led to the continued improvement in this field, the number of complaints received through the bank-customer relations department of the Supervisor of Banks at the Bank of Israel has declined, from 287 complaints in 2012 to 278 complaints in 2013, a 3.1% decline. The rate of complaints found justified in 2013, had dropped by 12.9%, from 31% in 2012, to 27% in 2013. The rate of complaints found justified, had dropped from 20% in 2012, to 15.1% in 2013. The grade awarded to the Bank by the Supervisor of Banks regarding the quality of complaint handling was 99.3 % in 2013, compared to 97.4% in 2012.

KNOWLEDGE MANAGEMENT

Knowledge management constitutes an important layer in the management of employee professionalism and the quality of service at the Bank. The organizational portal on the Intranet system at Discount Bank comprises a central tool in Knowledge management. Knowledge management is designed to provide an answer to several central challenges: Accumulation of professional knowledge, its preservation and its reuse; Knowledge sharing; Turning covert knowledge into overt knowledge; Directing the required information to the user in the shortest possible time.

Sharepoint. Upon reaching the decision to transfer all the business/organizational applications to the Sharepoint platform, a move has been initiated for the definition of the policy, operational concept and the functional characterization of the knowhow management using the system. The steering team and representatives of the knowhow communities have undergone instruction for obtaining familiarity with the concept and the system. In the meantime, work has begun on the characterization and the construction of sites in the system.

Drawing conclusions. Within the framework of promoting organizational learning and integrating risk management concept, the Bank cultivates a culture of drawing conclusions in order to expand organizational knowledge, information sharing, duplicating success and avoiding failure. The move for assimilation among officers and units of the Bank of the concept and process of drawing conclusions continued in 2013. In addition, the subject has been integrated into banking instruction sessions and professional conventions.

ORGANIZATIONAL CULTURE

Emphasis was put in 2013 on shaping an organizational culture regarding performance, quality and service – with a focus on commitment to and "connectivity" with the Bank and its goals.

The Discount code of ethics. The year 2013 has been dedicated to the raising of the ethical standards at the Bank. Moreover, a move for the updating of the Code of Ethics has started.

Internal communication focusing on "connectivity". The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.

With a view of broadening employees' knowledge and understanding as to the Bank's total activities and in order to deliver organizational messages, a variety of communication lines were also used during 2013, including: Senior Forum - a quarterly meeting led by the President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor; Employee portal (Intranet); "Personal angle" – a quarterly Internet newsletter, which includes news and updates concerning various subjects of interest to employees; "Talking strategy" – "attachment" of managers to strategic and organizational processes in the Discount Group, as agents for communicating knowledge and its meanings; "Talking about results" - communication of business results and their implications to the management chain.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices;
- "Ethics Café" – meetings led by a member of the Management, enriching the ways of facing ethical dilemmas.

Measurement and evaluation. In 2013, a new process for the assessment of employees and feedback was integrated, which is unique in its transparency, while using a designated computer system, a designated site in the employee portal and an encouraging internal organizational communication plan. The findings of the process comprise an infrastructure for the identification of advantages and challenges, as a platform for the formation of improvement plans.

TRAINING

In 2013, the staff at the Bank received a widespread response to their professional requirements by means of extensive training and instruction towards the core position (qualification), improvement of business performance (proficiency) and elimination of performance gaps. Special emphasis has been given to the "personal touch" regarding each employee according to his knowledge requirements.

Learning is viewed by the Bank as a principal value. It supports the availability of qualified human capital for the realization of the Bank's business strategy and the advancement of its goals, while stressing the maximum and exhaustive use of available internal capabilities and constant improvement. The knowledge gaps in various areas were filled in during the year according to the identification of needs conducted at the various divisions. Among other things, a solution has been provided for development and training needs derived from regulatory instructions that have effect on the banking industry and/or consumer instructions such as administrative enforcement, impaired debts, prohibition of money laundering, "red lights" and compliance.

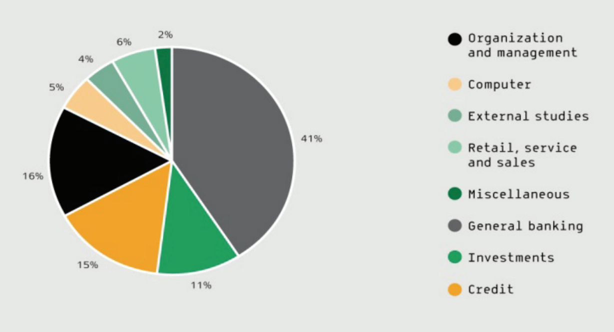
Scope of training. The number of training days in 2013 reached 34,600 compared with 30,800 training days in 2012, an increase of 12.3%. The data regarding the number of training days relate to actual training days on the College premises, and it does not express the development, enrichment and extensive self study activities conducted in a variety of subjects and areas. Thus, in 2013, employees of the Bank performed some 12,170 distant learning interactions, an addition of thousands of learning days (2012: 12,680 interactions).

Investment in training and development of employees

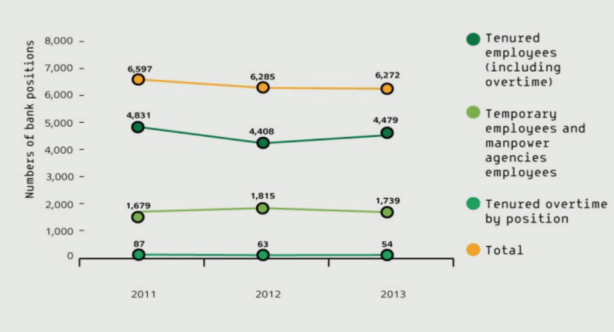
The Bank's investments in developing its human resources, in the training and shaping of an organizational culture amounted to NIS 11.5 million in 2013, compared with NIS 10.7 million in 2012. The increase in the investment for 2013, stems from a designated budgetary addition for strategic projects, which include the integration of a new system for sales management, the continued integration of the mortgage activities within the Bank and a project for the rewriting of procedures at the Bank. Concurrently, budget cuts were made regarding current operations. The amount does not include expenses in respect of academic studies for the Bank's employees and also not indirect costs regarding the wage of instruction staff, rental and building maintenance costs. The amount does not also include the relative part of employee payroll in respect of the participation of the staff in providing training courses, in the Bank's training framework, in self study by means of the distant learning computer systems and participation in outside training frameworks.

Furthermore, for the purpose of conducting the training, the Bank appoints mentors and training partners who are Bank employees and who, in addition to their regular work, assist in apprenticing training and in the preparation of training material. The cost in this respect is not included in the above amount.

Training days

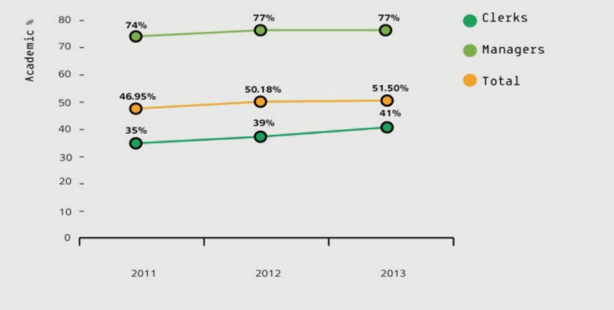


Number of bank positions

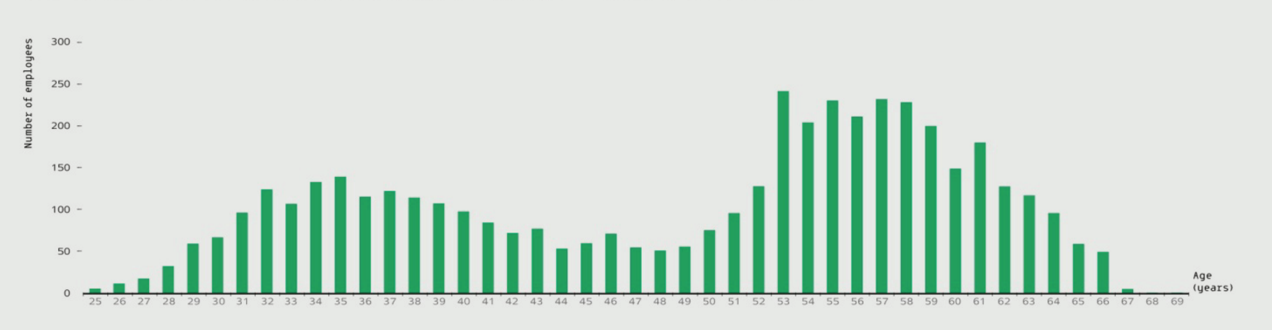


Average seniority and average age

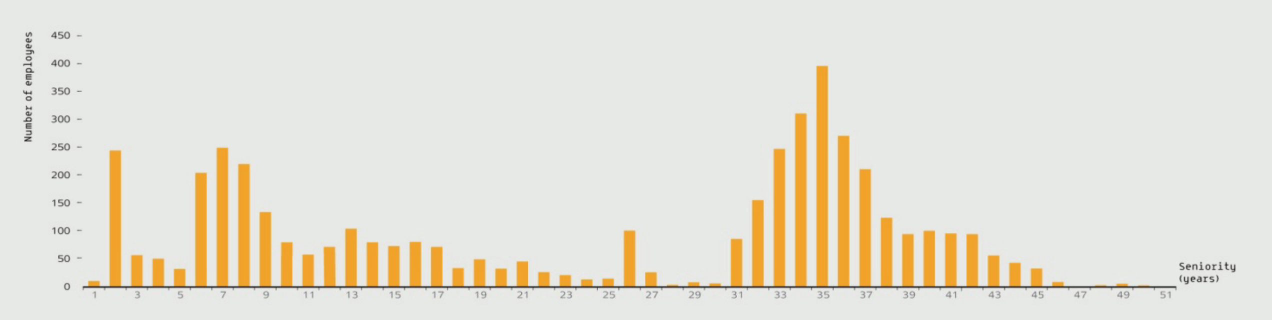
The rate of university graduates according to grade



Distribution of tenured employees by age - work force 12/13



Distribution of tenured employees by seniority - work force 12/13



CONTROL OF THE BANK

CONTROL OF THE BANK UNTIL DECEMBER 3, 2013

Until December 3, 2013, the Bronfman-Schron Group was a controlling shareholder of the Bank and held 265,164,841 of the Bank`s "A" ordinary shares of NIS 0.1 par value each (hereinafter : "ordinary shares") comprising 25.16% of the Bank`s issued share capital and voting rights.

The Bronfman Group's holdings in the Bank, through the limited partnership Treetops Acquisition Group LP (hereinafter : "Treetops"), comprised 15.1% of the equity and voting rights.

Mr. Rubin Schron's holdings in the Bank, through the limited partnership Treetops Acquisition Group II LP (hereinafter : "Treetops II"), comprised 10.06% of the issued share capital and voting rights.

The ultimate controlling shareholders of the Bank were Messrs: the late Edgar M. Bronfman, Matthew Bronfman, Adam R. Bronfman, Holly B. Lev, Michael Rubinoff, Philip Milstein and Rubin Schron.

The 2012 annual report contained an extensive description of the permit granted by the Governor of the Bank of Israel for the control and the holding of means of control in the Bank as well as the arrangements between the entities comprising the Bronfman-Schron Group.

A TRANSACTION FOR THE SALE OF SHARES DATED DECEMBER 3, 2013

According to information provided to the Bank, Treetops and Treetops II sold on December 3, 2013, some 44,262,511 ordinary shares by Treetops and 29,508,340 ordinary shares by Treetops II. The sale was made off the market at a price of NIS 6.679 per share, as detailed in the immediate report dated December 3, 2013 (Ref. No. 2013-01-213078).

Upon the consummation of the transaction, the permit by the Governor of the Bank of Israel dated December 1, 2013, for the holdings of means of control in the Bank (hereinafter : "the holding permit") which is designed to enable the decentralization of the core controlling interest of a bank in a gradual manner, as detailed in the immediate report dated December 12, 2013, (Ref. No. 2013-01-095539), entered into effect. At date of entering into effect of the holding permit, the permit granted on January 29, 2006, to the Bronfman-Schron Group for the holding of the control and means of control in the Bank was abolished.

In accordance with the above, the Bronfman-Schron Group ceased to be in control of the Bank and the Bank turned into a bank having no core controlling interest.

On February 9, 2014, the Governor of the Bank of Israel signed the amendment to the holding permit, revised following the passing away of the late Edgar M. Bronfman on December 21, 2013. As detailed in the immediate report dated February 10, 2014 (Ref. No. 2014-01-036505) (hereinafter: "the amended holding permit").

All the said immediate reports are presented hereby by way of reference.

For details regarding instructions for the appointment of directors in a banking corporation having no core controlling interest, as prescribed in the Banking Act (Licensing) (Legislative amendments), 2012, see above "Legislation and Supervision".

THE HOLDINGS OF THE BRONFMAN GROUP AND OF MR. SCHRON FOLLOWING THE TRANSACTION FOR THE SALE OF SHARES

The Bronfman Group's holdings in the Bank's shares are as follows:

114,836,393 ordinary shares, representing approx. 10.9% of the Bank's issued capital and of the voting rights therein, are held by Treetops.

Treetops is a limited partnership that was incorporated in the Cayman Islands. The limited partners in Treetops are members of the Bronfman Group, as set forth below:

- Edgar Miles Bronfman IDB Trusts A through G (seven trusts), hold approx. 64.273% of Treetops. The beneficiaries of the said seven trusteeships, following the passing away of the late Mr. Edgar M. Bronfman, are the children of the said deceased (Samuel Bronfman II, Edgar Bronfman Junior, Holly B. Lev, Matthew Bronfman, Adam R. Bronfman, Sara Igtet and Clare W. Bronfman) and their descendants (as detailed in Appendix III to the amended holding permit);

- Matthew Bronfman personally holds approx. 6.424% of Treetops;
- Matthew Bronfman IDB Trust, the beneficiary whereof is Matthew Bronfman, holds approx. 6.424% of Treetops;
- Holly B. Lev IDB Trust, the beneficiary whereof is Holly B. Lev, holds approx. 6.424% in Treetops;
- Adam R. Bronfman IDB Trust, the beneficiary whereof is Adam R. Bronfman, holds approx. 6.424% of Treetops.

All the trusts specified above are hereinafter jointly referred to as "the Bronfman Trusts". The trustees of each of the Bronfman Trusts have empowered the beneficiary of the Trust (and with respect to the seven trusteeships A through G, the Trustees have appointed Mr. Matthew Bronfman and Mr. Adam R. Bronfman as authorized representatives. According to the power of attorney given to them, the authorized representatives shall act in agreement; however, the signature of each one of them shall be sufficient to witness the exercise of the power of attorney) to make all the decisions with regard to the investment in the Bank, save for matters of replacement of the power attorney (subject to the Bank of Israel's prior approval), making further investments in Treetops and/or the Bank and a sale, entering into and agreement for a merger agreement or any transfer of the interests of the Trusts, in Treetops and/or the Bank.

- PLM/IDB Investment LLC, a company fully owned by Philp Millstein, holds approx. 6.424% in Treetops;
- Rubinoff IDB Holdings LP, a limited partnership fully owned by Michael Rubinoff, holds approx. 3.207% in Treetops.

In addition to the Bronfman Group members the limited partnership Treetops Special Limited Partner LP (hereinafter: "SLP"), incorporated in the Cayman Islands, holds approx. 0.2% of Treetops, as limited partner (the limited partners in SLP are Matthew Bronfman (approx. 65%) and Michael Rubinoff, through Rubinoff IDB Holdings LP (approx. 35%). The SLP's general partner, is Treetops SLP Ltd., (a company fully owned by Matthew Bronfman, incorporated in the Cayman Islands) holds approx. 0.2% of SLP).

Treetops' general partner, that holds approx. 0.2% of Treetops, is Treetops Acquisition Group Ltd (hereinafter: "Treetops Ltd."), a company incorporated in the Cayman Islands. The means of control in Treetops Ltd. are held by the Bronfman Group members, in accordance with the ratio of their holdings in Treetops.

According to information provided to the Bank, the Trustees for the trusteeships have committed that the trusteeships shall continue to maintain their interests in Treetops and in Treetops Ltd., so long as Treetops and Treetops Ltd. continue to be the owners of at least 5% of the interests in the Bank.

Mr. Schron's holdings in the Bank's shares are as follows:

76,557,597 ordinary shares, representing approx. 7.26% of the Bank's issued capital and of the voting rights therein, are held by Treetops II.

Treetops II is a limited partnership incorporated in the Cayman Islands. The limited partner of Treetops II is Cam Discount Ltd. (hereinafter: "Cam Discount"), that holds approx. 99.8% of Treetops II. Cam Discount is a company incorporated in the Cayman Islands, all the means of control wherein are held by Rubin Schron.

Treetops II's general partner, that holds approx. 0.2% of Treetops II, is Treetops Acquisition Group II Ltd (hereinafter: "Treetops II Ltd."), a company incorporated in the Cayman Islands, all the means of control wherein are held by Cam Discount.

PERMIT BY THE GOVERNOR OF THE BANK OF ISRAEL FOR THE HOLDING OF MEANS OF CONTROL IN THE BANK

The holding permit is in effect until the end of the transition period (as defined hereunder), however, if the transition period shall terminate before the end of six months from its inception date, then item 3(a) below will be in effect until the end of six months from inception of the transition period or until the end of the extended period according to the decision of the Supervisor of Banks in accordance with this item. Item 8 below will be in effect until the end of one year from date of termination of the transition period.

Following are the principle terms of the holding permit:

1. During the transitional period, the Bronfman Group and Mr. Schron (hereinafter : "the holders") are permitted only to sell means of control in the Bank and may not purchase such means at all.
   "Transitional period" – the period beginning with the first transfer of means of control in the Bank (namely: the sale of shares consummated on December 3, 2013, as described above; hereunder: "the initial transfer of means of control in the Bank") and ending on the earlier date of the following: the end of two years from date of the first transfer of means of control in the Bank, or the date on which both the Bronfman Group shall not hold more than 5% of any class of means of control and Mr. Schron shall not hold more than 5% of any class of means of control in the Bank. The Supervisor of Banks is empowered to extend the transitional period by one additional year.
2. (a) The Bronfman Group may hold any class of means of control in the Bank, but no more than the ratio held by it immediately following the first transfer of means of control in the Bank; the said holding shall be by means of the entities detailed in the Addendum to the holding permit and according to the ratios detailed in that Addendum;
   Treetops may directly hold any class of means of control in the Bank, but not more than the ratio held by it immediately following the first transfer of means of control in the Bank.
   (b) Mr. Schron may hold any class of means of control in the Bank, but no more than the ratio held by him immediately following the first transfer of means of control in the Bank; the said holding shall be by means of the entities detailed in the Addendum to the holding permit and according to the ratios detailed in that Addendum;
   Treetops II may directly hold any class of means of control in the Bank, but not more than the ratio held by it immediately following the first transfer of means of control in the Bank.
   (c) The following restrictions shall apply to all the corporations and trusteeships detailed in the Addendum to the holding permit (hereinafter : "the entities"):
      (1) 100% of the balance sheet assets of each of the entities shall be financed by equity; notwithstanding the above, each of Treetops or Treetops II shall be permitted to obtain credit on condition that no more than 5% of each class of means of control in the Bank is pledged as collateral thereof, as stated in subsection (d) hereunder.
      (2) The said entities shall not engage in any business except for the holding of means of control in the Bank, in accordance with the Addendum to the holding permit.
   (d) The holders shall not pledge the means of control in the Bank or in any of the said entities. Notwithstanding the above, the restriction on the pledge shall not apply to 5% of any class of means of control in the Bank held separately by the Bronfman Group or by Mr. Schron.
   (e) (1) The holders shall not agree, either explicitly or by implication, to a foreclosure of the means of control in the Bank or in any of the above entities; the holders shall refrain from any other action which may lead in fact to a change in ownership rights over these means of control or over the rights embedded therein and which are specified in the definition of "means of control" in Section 1 of the Banking Act (Licensing), 1981, except for the sale thereof in accordance with this permit.
      (2) Where, despite the above, the means of control held by a holder, as stated in subsection (1) above, had been foreclosed, such holder shall do the utmost, in any way available to him, to immediately remove the foreclosure.
3. The holders shall act and vote by power of their holdings of the means of control in the Bank, as follows:
   (a) To terminate the office of directors, who have had or are having any connection to any of the holders, as determined by the Supervisor of Banks, within six months from the beginning of the transitional period, including by the submission of a demand to the Bank`s Board of Directors requesting the convening of a general meeting of shareholders having on its agenda a motion as above and the support of such motion by power of all their holdings in the means of control in the Bank. The Supervisor of Banks may extend the said period with respect to one or more directors, at his discretion.
   (b) To demand from the Bank`s Board of Directors, soon after the beginning of the transitional period, to convene a

meeting of shareholders with the agenda of increasing the Bank`s registered share capital by a rate of 15%, and to support such a motion (an increase as above was approved by a general meeting of shareholders held on February 17, 2014 – see Note 13 C 3 to the financial statements).

4. Cooperation between the holders:
   (a) The Bronfman Group and Mr. Schron shall be permitted to cooperate only in the matter of the sale of the means of control held by them, as well as in whatever is required for acting and voting by power of their total holdings in the Bank, as stated in item (3) above.
   (b) At the end of six months since the beginning of the transitional period, the Bronfman Group shall not vote by the power of their voting rights that exceed 5% of the means of control of the Bank and Mr. Schron shall not vote by power of his voting rights that exceed 5% of the means of control of the Bank, and everything excluding the matters stated in item (3) above, in respect of which the Bronfman Group and Mr. Schron will vote by power of their total holdings in the means of control of the Bank.
   It has been clarified that during the first six months of the transitional period, the holders are allowed to vote also on matters that are not detailed in item (3) above, under power of all the means of control held by them, on condition that the Bronfman Group and Mr. Schron do not correlate the mode of their voting on such matters.
   (c) Without derogating from that stated in subsection (b) above, the members of the Bronfman Group holding together the means of control of the Bank through Treetop, are permitted to cooperate between them and correlate the mode of voting under the voting rights held by them.
5. In the event that during the process of sale, the holdings of the Bronfman Group or of Mr. Schron in the means of control of the Bank would drop to a level of 5% or below, which does not require obtaining a holding permit (hereinafter: "Partner A"), while the holdings of the other holder (the Bronfman Group or Mr. Schron, as the case may be, hereinafter : "partner B") have not yet dropped to that level, then with respect to partner "A", the conditions of the permit stated in item 2 above and in item 7 below will be abolished. The above stated shall apply also with respect to partner "B" on the date on which his holdings in means of control of the Bank drop to a level of 5% or below, which does not require a holding permit.
   It is clarified that the holding permit, together, shall still be in effect and shall enable the holders to continue acting according to its terms, including coordinating the continuation of the sale of the means of control of the Bank as well as acting and voting in accordance with the terms detailed in item 3 above.
6. The holders and the entities through which the means of control are being held, as stated in item 2 above and in the Addendum to the permit, are permitted to continue and act in accordance with the cooperation agreement (Summary of Principal Terms) which was appended as Appendix "B" to the investors' agreement of January 25, 2006, which had been approved in advance and in writing by the Supervisor of Banks, subject to the condition that the terms set in the holding permit are not violated.
7. The means of control of the Bank held directly by Treetop and Treetop II, shall continue to be deposited with the Trustee – Ubank Trust Company Ltd., in accordance with the amended version of the trust agreement, including, in accordance with Addendum III to the trust agreement, as approved by the Supervisor of Banks on December 3, 2012, or shall be deposited with another trustee, whose identity, letter of trusteeship and the instructions given to him in the trust agreement shall be subject to the prior approval in writing of the Supervisor of Banks.
8. During the transitional period and during one year thereafter (hereinafter : "the cooling off period") the holders shall not be entitled to propose candidates for office as directors of the Bank and shall not be entitled to be involved in any way whatsoever in the proposal of candidates for office as directors and shall not be entitled to propose the termination of office of a director, except as stated in item 3(a) above.
   Notwithstanding the above, it was clarified that the holders shall be entitled to vote in the matter of appointment or termination of office of directors, not proposed by the holders, subject to the terms specified in item 4(b) above.
9. (a) During the transitional period and in the absence of a prior approval in writing by the Supervisor of banks, the

holders or any of them, or corporations under their control, shall not be permitted to engage in any business in Israel involving the receipt of deposits – even from less than thirty persons, or involving the granting of credit or any other financial occupation in Israel, which might be considered as competing with the Bank`s business.

(b) During the transitional period and in the absence of a prior approval in writing by the Supervisor of banks, the holders or any of them, or corporations under their control, may not be considered interested parties in and hold office as directors or senior executives of corporations engaged in any of the business operations mentioned in subsection (a) above; in this respect, "interested party" - anyone who holds 5% or more of any class of means of control.

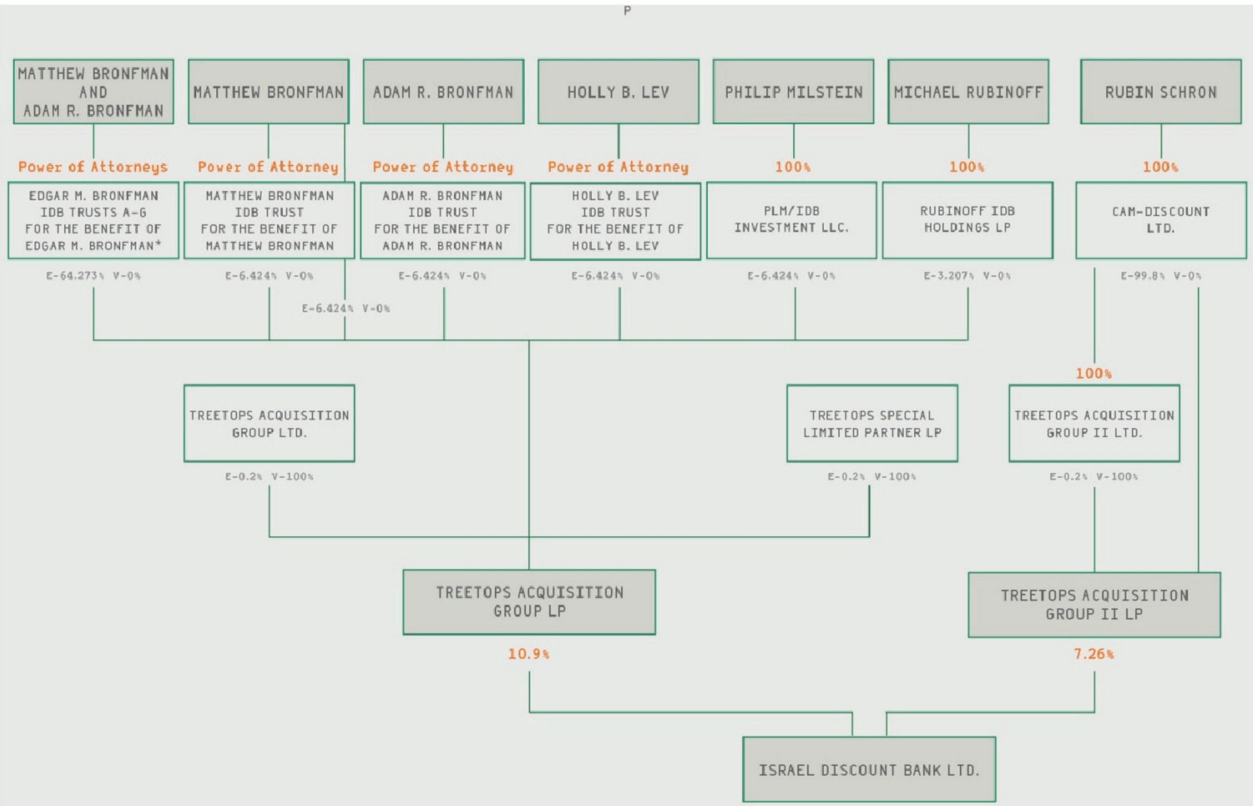
For details regarding the instructions set in the holding permit, regarding transactions between the holders and the Bank, see Note 22E (2) to the financial statements. The holding permit states also that during the cooling-off period the holders are deemed to be related parties and controlling shareholders for the purpose of Proper Conduct of Banking Business Directive in the matter of a banking corporation business with related parties (Directive No. 312).

A letter of the Supervisor of Banks dated December 1, 2013, appended to the holding permit, as stated, clarifies, among other things, the matter of external directors, as follows:

(1) In view of the fact that during the transitional period the Bank will convert to a status of a bank having no core controlling interest, the rules of the Banking Law (Licensing), 1981, applicable to the connection of external directors of a bank having no core controlling interest shall apply. These rules include an absence of connection to whoever holds over 2.5% of the means of control of the bank.

(2) The office of external directors of a bank (meaning external directors under the Companies Act and external directors under Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors) shall not be terminated following the decentralization of control of the bank.

The Holdings of the Bronfman Group and of Mr. Schron in Israel Discount Bank Ltd.



* Following the passing away of the late Mr. Edgar M. Bronfman, The beneficiaries of the trusts are his children and their descendants, as detailed in Appendix 3 to the Addendum to the amended holding permit.

V=VOTING; E=EQUITY

CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

GENERAL

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) 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 field in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and sometimes even dictate the wording to be used by banking corporations. Nonetheless, there are areas where application of the accounting policy involves a high level of evaluation and assessment performed by Management of the banking corporation in the course of preparation of the financial statements.

Application by Management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, requires sometime 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.

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 information and professional judgment.

Following is a summary review of evaluations and assessments made as regards "critical" matters.

ALLOWANCES FOR CREDIT LOSSES

Beginning January 1, 2011, the Bank implements the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowance for credit losses".

The allowances for credit losses include a specific allowance - an allowance for credit losses in respect of debts that had been examined on a specific basis and found to be impaired and in respect of troubled debts under restructurings, and a group allowance - an allowance for credit losses in respect of small and homogeneous debts, in respect of debts examined on a specific basis and not classified as impaired, and allowances in respect of housing loans. The said allowances reflect Management's assessment of the loss inherent in the credit portfolio in accordance with rules determined by the Supervisor of Banks and based on evaluations and assessments.

Once in each quarter, the Bank's Management examines the credit portfolio with a view of assessing the possible loss inherent therein. The process of assessing the possible loss related to the credit portfolio includes three stages:

- Identification of customers whose ability to honor their obligations towards the Bank has changed, and their reclassification as a result, into classes determined in the instructions of the Supervisor of Banks and according to criteria determined in these instructions, as "impaired debts", "substandard debts" and "debts under special mention".
- Creation of allowances reflecting the anticipated loss inherent in the credit portfolio.

  In determining the allowances on a specific basis, the Bank's Management assesses the difference between the recorded amount of the debt and the fair value of the related collateral (as assessed by it), in respect of impaired debts secured by collateral, or of the difference between the recorded amount of the debt and the value of the discounted amount of repayments anticipated to be received on account of the debt, in respect of other debts.

In determining the allowance on a group basis, the Bank's Management assesses the amount of unidentified losses inherent in the portfolio, using a "credit loss allowance coefficient" in respect of outstanding credit segmented according to economic sectors and according to the determined classification, determined within the framework of the "range of allowances" the average allowances and the rate of allowance in the recent year, computed on the basis of the outstanding balances and allowances in the various economic sectors, as reported by the Bank in recent years.

The allowance according to the extent of arrears regarding housing loans is computed at increasing rates, starting with 8% of the balance of the debt, in respect of debts, the extent of arrears thereof exceeds six months, and up to 80% of the balance of the debt, where the extent of arrears exceeds thirty-three months. Where, in the opinion of the Management, the said allowances are insufficient, considering the assessed value of the pledged asset, an allowance in excess of that required according to the extent of arrears, is recorded. Moreover, a group allowance is calculated, which is not less than 0.35% of the outstanding balance of housing credit in respect of which an allowance according to the extent of arrears is not required.

- Examination of the overall adequacy of allowance for credit losses.

The process of evaluating the loss inherent in the credit portfolio, as described above, is based on significant assessments involving uncertainty and on subjective evaluations.

Changes in assessments and evaluations as described above, may have a material effect upon the allowance for credit losses reflected in the Bank's financial statements.

It should be further noted that the principles standing at the base of the new Directive comprise a far reaching change in relation to the rules which had been in effect until December 31, 2010, regarding the classification of debts and the measurement of allowances for credit losses in respect of such debts. The said principles required the Bank's Management, among other things, to form a methodology with respect to certain subjects, using assumptions, assessments and discretion. In future, following study and analysis over a period of time of the information that will be produced, certain changes in the said methodology, assumptions and assessments may have to be made.

For details regarding the accounting policy, see Note 1 D 4 to the financial statements. For details regarding the credit and its quality, see Note 4 B 3 to the financial statements. For details regarding the overall credit risk for which the Group is responsible in respect of problematic borrowers, see above under "Developments of assets and liabilities". For details regarding the credit risk management at the Bank, see above under "Exposure to risks and risk management" above. For details regarding the draft directive in the matter of "Group allowance for credit losses", see Note 1 E 3 to the financial statements.

CONTINGENT LIABILITIES

Against the Bank and against other banks and companies in the Group are pending legal actions on various issues, including class action suits and requests for approval of actions as class action suits.

The accounting treatment of contingencies is implemented in accordance with the U.S. Standard FAS 5 - "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating a allowance in respect of the claim and the mode and scope of the disclosure in the financial statements.

The U.S. Standard also rules that if the loss cannot be assessed, no allowance should be created in respect thereof, but the matter should be disclosed if it might be significant. For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits, due to the following reasons.

According to Israeli law, a plea for the approval of a class action constitutes in fact a preliminary procedure in which the Court examines several prerequisites in order to decide the plea. Inter-alia the Court examines whether the claimant is appropriate and fitting, whether he is in good faith, whether a class action is the fair and appropriate way of dealing with the matter, whether the action reveals joint questions of fact and law, and the Court assesses also the prospects of the action. The Court further determines in the same decision the nature of the group that the claimant would be entitled to represent and on grounds of what cause the action will be filed. It is understood from the above that most of the parameters are exogenous to the prospects of the action itself, and they are generally clarified in the course of the proceedings (which may continue over several years).

When the Court’s decision in the matter is given, a request for permission to appeal is usually submitted, which is also dealt with over a long period. Only afterwards, if the request for appeal is dismissed, the class action begins to be heard subject to limitations determined in the preliminary procedure.

The accounting principle adopted by the banking corporations in Israel is indeed the U.S. principle, however it is vital to bring into account in this respect the difference in the characteristics of the U.S. reality compared to Israeli reality, and the difficulties that arise as a result.

The U.S. has experience of many years (several decades) regarding the issue of class action suits and there is recognized and tested data, including the rate of compromise agreements and the amounts paid in compromise settlements. Such an experience is completely lacking as regards the law and practice in Israel. Also the legal procedures in the U.S. are different than those in Israel, allowing each party to interrogate the witnesses of the other party before the case is heard in Court, thus making it possible to evaluate the prospects of the action at an earlier stage. The issues discussed above create special difficulties in everything related to class action suits and motions for approval of class actions.

As stated, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels. Such opinions are subjective and face objective evaluation difficulties. Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.

The Bank's Management and its Counsels, as well as the managements and counsels of other banks and companies in the Group, examine once every quarter the pending actions and update, where necessary, the provisions created therewith in the light of developments.

It has been determined in the public reporting directive in the matter of "The accounting treatment of contingent claims" that in evaluating the outstanding legal actions, the management of a banking corporation is to rely upon legal opinions of Counsel, which should determine the probability of the exposure to the risk involved in such actions materializing. Claims have been classified according to the probability range for a risk exposure materializing, as described in Note 1 D 17 to the financial statements. The financial statements include appropriate provisions for claims in respect of which realization of the related risk exposure as "probable".

The financial statements include disclosure of material legal proceedings conducted against the Bank and Group companies, based on the criteria described in Note 1 D 17 to the financial statements. In addition, Note 19 C to the financial statements describes the disclosure regarding the total exposure in respect of claims that have been assessed, in whole or in part (in respect of the relevant part), as "reasonably possible". It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.

See Note 19 C to the financial statements for details of material legal actions pending against the Bank and against other companies in the Group. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" hereunder. For additional details, see Note 1 D 17 to the financial statements.

IMPAIRMENT OF AVAILABLE FOR SALE SECURITIES

According to directives and guidelines issued by the Supervisor of Banks and to accepted accounting principles applying to banking corporations, unrealized gains or losses on adjustment to fair value of available for sale securities, net of the tax effect, are directly recorded as a separate item in equity within the framework of other comprehensive income, and are taken to the income statement in certain cases, including upon realization of the securities. Unrealized losses recorded as a separate item in equity within the framework of other comprehensive income, are losses of a temporary nature only. Other than temporary losses are taken directly to the statement of income.

The Bank's management is therefore required to examine and evaluate the nature of losses accumulated in respect of the said securities.

For the purpose of determining the nature of losses accumulated in respect of securities as above, managements of the Bank and/or of the relevant subsidiaries, base themselves on the security's various characteristics on which losses have been accumulated and on the company that had issued this security, such as: The loss rate in relation to cost/amortized cost, the period in which the fair value of the security was lower than its cost, the credit rating of the security and changes that had taken place in its rating and attributing impairment to the deterioration in the financial condition of the issuer or to market conditions as a whole, etc. For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments and the assumptions and features upon which they are based may have a significant effect upon the financial statements.

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

Directives of the Supervisor of Banks. Beginning with January 1, 2011, the Bank implements the directive of the Supervisor of Banks regarding Measurement of fair value based on the U.S. financial accounting standard FAS 157. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

FAS 157 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.

These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

Beginning with January 1, 2012, the Bank implements accounting standard ASU 2011-04, "Measurement of fair value". The update introduces amendments to FAS 157 (ASC 820) required for the uniform definition for the measurement of fair value in generally accepted accounting principles in the U.S. (U.S. GAAP) and in international financial reporting standards (IFRS).

According to the update the basic assumption of "in-use" is not implemented with respect to financial instruments. Nevertheless, financial assets and financial liabilities held and managed within the framework of a portfolio, are measured, under certain circumstances, according to fair value, using a price that would have been received or paid had a net position in groups of financial assets or financial liabilities as above, been sold or transferred.

In addition, according to the update, the measurement of fair value of financial instruments is made without taking into account the blockage factor both as regards financial instruments assessed according to all levels.

Furthermore, consistently with the measurement of fair value of financial liabilities, the fair value of items classified to capital is measured using quoted prices of such items (or of similar instruments) which are traded as assets.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 21 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

For details regarding transfers between levels of fair value hierarchies, see Note 21 G to the financial statements.

As seen from the data presented in Note 21 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 13.8% at December 31, 2013, compared with 11.0% at December 31, 2012.

The income from assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 21 F (1), amounted to NIS 427 million in 2013, compared to an expense of NIS 26 million for 2012.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and with quotations by brokers that are not the issuers of the securities, which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, in respect of their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank’s dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model, and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank’s dealing room in accordance with the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc. Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Group in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Group, in which a representative of the Accounting Group also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within the framework of the same program, the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments in respect of which there is insufficient liquidity in the market, except for back-to-back transactions.

Note 20 and 21 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.
Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.
The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.
The adjustment of credit risk relating to liabilities in respect of derivative instruments led, in 2013, to a loss of NIS 9 million, compared to a loss of NIS 34 million in 2012.

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

	December 31, 2013	December 31, 2012
	in NIS millions	
Assets in respect of derivative instruments	4,131	3,770
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(10)	(20)
Liabilities in respect of derivative instruments	4,913	4,722
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(10)	(29)

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

EMPLOYEE RIGHTS

Liability for employee severance pay. On March 27, 2011, the Supervisor of Banks issued guidelines in the matter of "guidelines and clarifications regarding the strengthening of internal control over financial reporting of employee rights". The guidelines refer principally to aspects of strengthening the internal control over financial reporting of this subject. However, one aspect comprises an accounting guideline, viz., voluntary retirement plan and non-contractual severance payments. A banking corporation that anticipates the payment to groups of employees of benefits in excess of contractual obligations, has to take into account in its actuarial computations the ratio of employees who are expected to retire (including employees expected to retire under voluntary retirement plan or upon obtaining other beneficial terms) and the benefits to which they will be entitled to upon retirement. The guidelines include quantitative yardsticks, which, where these exist, the banking corporation is required to take into account the additional cost in this respect, based on an actuarial computation. The liability for payment of severance pay to such group of employees shall be presented in the financial statements at the higher of the amount of liability based on an actuarial computation, taking into account the additional cost expected in respect of the said benefits, and the amount of liability computed by multiplying the monthly salary of the employee by the number of years of employment, as required by Opinion No. 20 of the Institute of Certified Public Accountants in Israel.
The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management.

The limitations determined by the Management, which have been implemented as from the financial statements as of June 30, 2011,are as follows:

- The retirement of employees under preferred terms will not be allowed during the period of five years following the 2011 retirement plan becoming effective (see under "Human resources" above) excluding exceptional cases (see below);
- The minimum age for retirement under preferred terms is 50;
- As at December 31, 2013, the creation of a special fund stood at NIS 60 million, for exceptional retirement cases, for that group of employees, who under the determined limitations will not be entitled to retirement under preferred terms, (the computation, initially made with respect to the June 30, 2011 data, related to the special reserve limitation, as stated, in the amount of NIS 50 million; as of December 31, 2012 the balance of the special fund amounted to NIS 70 million).

The actuarial computation is based on several parameters, including: life expectancy, retirement age, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated - 2.5% per year and the discount rate. These parameters were determined, inter-alia, in a temporary instruction of the Bank of Israel, based on forecasts prepared by the actuary and the experience accumulated in the Bank. In accordance with the instructions of the Supervisor of Banks, the actuarial computation was based on a discount rate of 4%. The computation is based also on the average retirement rates, according to age groups, in accordance with the actual retirement rates in the years 2004-2010. In view of the scope of natural retirement anticipated in the years 2017-2027, it had been assumed that the rate of voluntary retirement in these years will be 2% per year.

Following is the possible effect of changes in parameters and assumptions standing at the base of the actuarial evaluation, in respect of the liability for payment of severance pay as of December 31, 2013, at the Bank and at MDB:

	Increase in liability
	in NIS millions
Increase of 1% in retirement rate of employees	34
Increase of 10% in paid retirement rate	38
Increase of 0.5% in the real-term annual wage	105
Decrease of 1% in the capitalization rate	213

Presented hereunder is the possible effect of changes in parameters and assumptions on which the actuarial assessment of the liability of the Bank and of Mercantile Discount Bank for employee "Long service (Jubilee) awards and post retirement payments"- as of December 31, 2013, had been based:

	Increase (decrease) in liability
	in NIS millions
Increase of 1% in retirement rate of employees	(6)
Decrease of 1% in retirement rate of employees	6
Increase of 0.5% in the real-term annual wage	15
Decrease of 1% in the capitalization rate	117

Long service (Jubilee) awards and post retirement benefits. Some employees of the Bank and of Mercantile Discount Bank Ltd. are entitled to long-service bonuses ("Jubilee Bonuses") comprising several monthly salaries and additional paid vacation days, at the end of 20, 30 and 40 years of employment with the Bank. Bank employees are also entitled to certain benefits subsequent to their retirement from the Bank. These liabilities depend on several conditions that have to materialize in the future.

The Supervisor of Bank requires the Bank to base the provision for these liabilities on an actuarial computation and to present it at discounted value. The actuarial computation is based on several parameters mentioned above.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[2] is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the Bank's 2013 Annual Report (This Report).

The capitalization rate used in actuarial computations. Within the framework of the said actuarial computations, 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 December 31, 2013, would have increased by an amount of NIS 865 million (pre-tax). The after-tax effect of the said theoretical change is assessed at NIS 539 million.

It should be noted that the change in the estimated amounts, as stated, compared 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.

Change in accounting treatment. For details regarding the draft in the matter of the adoption of U.S. accounting principles relating to employee rights, see Note 1 E 5.

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.

DEFERRED TAXES

Deferred taxes are recorded in respect of temporary differences between the value of assets and liabilities in the balance sheet and their value for tax purposes.

Deferred tax assets in respect of timing differences are recorded only if it is probable that tax savings will accrue upon reversal of the difference and deferred tax assets in respect of carry forward losses for tax purposes are recorded only if the realization of the tax asset in the foreseeable future is more likely than not.

Accordingly, when deferred tax assets are being recorded, the Bank is required to perform assessments and estimates as to the probability and timing of realization of these assets in the future. For further details see Note 1 D 18 and Note 29 to the financial statements.

EXAMINATION OF IMPAIRMENT IN VALUE OF NON-FINANCIAL ASSETS

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.

Impairment of costs of internal development of computer software. In addition to the signs for examining the existence of impairment specified in IAS 36, "impairment of assets", examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States.

[2] The English translation of the Opinion is available for perusal at the Bank's website.

For additional details regarding the said indicators, see Note 1 D 13.

The written down balance of in-house software development costs amounted at December 31, 2013 to NIS 831 million (December 31, 2012: NIS 921 million). It should be noted that the major part of the said amount represents investments in the core system ("Ofek") that is anticipated to have a long-term use of several decades.

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 21, 2014
	Subordinate capital notes(1)	il A+	Stable	January 21, 2014
	Upper tier 2 capital (Series 1)	il A-	Stable	January 21, 2014
	Hybrid tier 1 capital (Series "A")	il BBB	Stable	January 21, 2014
Midroog	Long-term deposits	Aa2	Stable	March 4, 2014
	Short-term deposits	P-1		March 4, 2014
	Subordinate capital notes(1)	Aa3	Negative	March 4, 2014
	Subordinate capital notes (tier 1 capital)	A-2	Negative	March 4, 2014
The international rating agency S&P	Issuer rating Short-term	A-3	Stable	January 21, 2014
	Issuer rating Long-term	BBB-	Stable	January 21, 2014
The international rating agency Moody's	Long-term foreign currency deposits	A-3	Negative	December 12, 2013
	Bank Financial Strength Rating	D+ (BFSR)	Negative	December 12, 2013
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA-	Stable	January 21, 2014 (2)
	Subordinate capital notes	il A+	Stable	January 21, 2014
	Discount Bank Latin America			
The international rating agency S&P	Issuer rating (including deposits)	BB(3)	Stable	October 2, 2013

Footnotes:

(1) The rating also relates to subordinate capital notes (lower tier 2) capital issued by Manpikim.

(2) 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) 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.

For comparison purposes, hereunder are the international rating data for the State of Israel (long-term for bonds issued in foreign currency)*:

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.

LEGAL PROCEEDINGS

OUTSTANDING CLAIMS AGAINST THE BANK

Various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and pleas to approve actions as class action, brought against them by customers of the Bank and of its consolidated subsidiaries, past customers as well as allegations with regard to various third parties, who consider themselves harmed or damaged by the actions of the Bank and its consolidated subsidiaries in the ordinary course of their business. Among other things, these actions raise allegations with regard to the unlawful debiting of interest and/or not in accordance with agreements, subjecting one service to another, the failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties as regards assets of debtors held, as alleged by them, with the bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, requests for injunction orders instructing the Bank to refrain from paying out of bank guarantees or documentary credit, as well as to provident funds, securities, construction loans, and applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. The Bank's Management believes, based inter-alia on Counsel's opinion and on the opinions of the managements of the consolidated subsidiaries of the Bank, which are also based on counsel's opinion, as the case may be, respectively, that adequate provisions have been included in the financial statements, if required.
Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 19 C to the financial statements.

DEBT RECOVERIES PROCEDURES

As part of the Bank's and its consolidated subsidiaries debt collection policy, legal procedures are instituted in the ordinary course of business for the recovery of debts from the borrowers or from guarantors for such debts, including the realization of collateral provided by the borrowers or by any third parties. Included in such procedures are procedures for receiverships, liquidations, the foreclosure of pledged assets, etc.

ADDITIONAL LEGAL PROCEEDINGS

Legal proceedings regarding the Lehman Brothers Group. On September 15, 2008, the Lehman Brothers Group (hereinafter: "Lehman Group") collapsed. At that time, the Bank and IDB New York held Lehman Group's holding company's bonds. In addition, the Bank had entered into transactions in financial assets with the Lehman Bros. Group. Furthermore, the Bank managed various accounts of Lehman Group companies, some of which are for their customers.
In March 2012 the Bankruptcy Court in New York approved a creditors' arrangement for the parent company of Lehman Brothers Holdings Inc. and several of its subsidiaries. The Bank has received the first payment under the arrangement, on account of the debentures that it held in the holding company of the Lehman Group. In the Bank's opinion, no further provision is required for the impairment of the aforesaid debentures.
An agreement was signed on June 24, 2013, with Lehman Brothers International (Europe) (in administration), which brought to the conclusion of all legal proceedings that had existed between the Bank and any of the companies in the Lehman Group. Upon payment of the balance of the liquidation dividend and regularizing the transfer of securities that are still being held by the Bank, 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, which were sold in July 2013, in an immaterial profit.
On January 10, 2014, the New York Bankruptcy Court approved the agreement with Lehman Brothers Holdings Inc., and according to which, the setoff of debt balances between the parties and the refund of a monetary deposit and bonds by the Bank had been approved.

Legal proceedings against IDB (Swiss) Bank. On November 4, 2011, a former Vice President and Risk manager of IDB (Swiss) Bank, submitted to the Labor Court in Geneva a claim in the amount of SFR 2 million against IDB (Swiss) Bank. The claim raises various arguments against the bank concerning his dismissal from office and his rights in this respect. IDB (Swiss) Bank filed a defense brief as well as a counterclaim. The legal proceedings between the parties are being continued.

As background to the case, it should be noted that in October 2010, the Claimant, while still a Vice President of IDB (Swiss) Bank, submitted a report that included various findings, among which are findings that prima-facie indicate violations of the law and procedures. The said findings have been submitted for an independent examination by KPMG (Swiss), and except for violations of the bank's procedures, no violations of the law, as claimed, have been found. Appropriate reports have been submitted to the Swiss authorities.

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. The Bank has motioned for the dismissal in limine of the claim.

A hearing of the motion was held in January 2014, and a decision will be given following the submission by the parties of summation briefs.

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.

An appeal by the Chairman of the National Committee of the Bank's Employees against the decision to terminate his employment with the Bank. On February 20, 2014, the Chairman of the National Committee of the Bank's Employees filed with the Regional Labor Court in Tel Aviv, a motion for temporary relief against the decision of the Bank to terminate his employment on March 31, 2014. Within these premises, the Chairman of the National Committee filed also for a temporary and permanent declaratory relief for the voidance of the decision of the Bank to terminate his employment on March 31, 2014, and this, prior to the end of his term of office as member of the Employee's Committee. The Chairman of the Committee alleges that the decision to terminate his employment is affected by improper considerations, and among other things, had been taken on the background of his activity in the employees' organization and due to his age.

The Bank has submitted its response to the motion, arguing, among other things, that the date of termination of the employment of the Chairman of the Committee had been specifically agreed with him some time ago, and that no ground and justification exists for a change in such a personal agreement.

The Regional Labor Court heard the case on March 3, 2014. At the end of the hearing, the Court ordered that the parties (the Appellant and the Bank) should file their summing-up briefs in writing no later than March 11, 2014 and March 16, 2014, respectively.

SIGNIFICANT LEGAL PROCEEDINGS SETTLED IN 2013

1) On September 6, 2011, a lawsuit was filed with the Tel Aviv District Court 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 been informed during 2013 that the Court decided on December 6, 2012, to close this case, due to lack of activity.
2) On July 26, 2011, a notice of Clal Pension and Gemel Ltd. ("Clal Pension and Gemel") was delivered to the Bank, that an action together with a motion for approval of the action as a class action suit (hereinafter: "action" and "motion") was filed with the court 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. According to the action and motion, the damage caused to the members whom the Claimant sought to represent was assessed, in respect of the last five years, at between NIS 324 million and NIS 648 million.
   Clal Pension and Gemel argue that the Bank had granted indemnification undertaking, relating to the period prior to the sale of the relevant 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.
3) On May 30, 2012, the Bank was given notice of a petition to approve a claim as a class action suit. The cause of the claim was the charging of customers' accounts with various legal expenses without court approval. In addition, the plaintiff also alleged 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.
   On December 2, 2013, a verdict was granted, approving the motion of the Appellant for withdrawal of the claim and the motion to approve it as a class action suit. The personal claim and the motion for its approval as a class action suit were dismissed.

For details regarding motions for approval of claims as class action suits, in the matter of "transaction permits", which the Court has approved the withdrawal of the Appellants there from in January 2014, see Note 19 to the financial statements, items 12.11 and 12.12. For details regarding a motion for approval of a claim as a class action suit in the matter of the granting of revolving credit, which the Court has approved the notice by the parties regarding its withdrawal in January 2014, see Note 19 to the financial statements, item 12.14.

For details as to a motion for approval of a claim as a class action suit in the matter of restrictions on the amount of cash withdrawals through ATM machines operated by ABS and Casponet, which was dismissed in January 2014, see Note 19 to the financial statements, item12.10.

For details regarding an appeal against the decision of the District Court to dismiss a claim against the Bank, given in February 2014, see Note 19 C., item 12.2.

PROCEEDINGS REGARDING AUTHORITIES

1) For details regarding various proceedings conducted by the Antitrust Commissioner and concerning the Group's activities in the credit card field, see Note 34 B 1 to the financial statements and "Credit card operations" under "Further details as to activity in certain products".
2) For details regarding the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which the Commissioner states that binding arrangements had existed between the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and the First International Bank ("FIBI") regarding the communication of information, see Note 19 C 15 to the financial statements.
3) 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".
4) 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.
5) For details regarding the police investigation and the seizure of documents and computer material of ICC, see Note 34 C to the financial statements.
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, see above "Developments in the Segment" under "International Operations".
8) For details regarding an audit by the Bank of Israel in Discount Bank in the matter of prohibition of money laundering, see "Compliance risks" under "Exposure to risks and risk management", above.

MATERIAL AGREEMENTS

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank’s operations during such period.

AGREEMENT FOR THE ACQUISITION OF MEANS OF CONTROL IN THE FIRST INTERNATIONAL BANK ("FIBI")

According to an agreement dated July 31, 1983, between the Bank and FIBI Holdings Ltd. and one of its subsidiaries, in terms thereof the Bank acquired ordinary shares of a par value of NIS 5 each in FIBI, which granted the Bank approx. 26% share in the equity and 11% share in the voting rights of FIBI, it was agreed, among other things, that the Bank shall not be involved in the management of FIBI.

The agreement provided that so long as the Bank is in possession of at least 80% of the shares in FIBI acquired by it under this agreement (including bonus shares and rights in respect of these shares), FIBI Holdings will see to it that one quarter of the members of the board of directors and of board of directors’ committees of FIBI will be members recommended by the Bank, on condition that the Bank will not recommend persons the appointment of whom might, in the opinion of the Governor of the Bank of Israel, create a conflict of interests. In addition, the said agreement provided that each of the parties thereto shall have the right of first refusal in respect of the acquisition of shares in FIBI held by the other party, whether such sale shall be made on or off the market. The right of first refusal does not apply to sales of up to 20% of the total holdings of each party effected on the

Tel-Aviv Stock Exchange in the ordinary course of business. Furthermore, the right of first refusal does not apply in the case of a sale of FIBI shares by any of the parties to its parent company or to a company controlled by such party.

The acquisition of the said shares was made in terms of a permit for the acquisition of means of control, under Section 34 of the Banking Law (Licensing), 1981, granted by the Governor of the Bank of Israel on July 20, 1983, in the framework of which the Bank was permitted to acquire up to 30% of the issued and paid share capital of FIBI. As part of the process of obtaining the permit to acquire means of control, the Bank has made a commitment to the Bank of Israel that FIBI will be managed in an independent manner, and that all members of the Board of Directors of FIBI shall be appointed by FIBI Holdings Ltd., 25% thereof to be appointed in accordance with the Bank's recommendation as approved by the Governor of the Bank of Israel. It was further agreed that the Governor would not withhold his approval of the Bank's recommendation as above, unless based on reasonable grounds and considering the possibility that such appointments might create a conflict of interests.

The signing of an agreement with FIBI Holdings - 2010. The Bank and FIBI Holdings signed an agreement on March 28, 2010, which, among other things, limited 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 the First International Bank from among candidates recommended by Discount Bank. For 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 the First International Bank, see Note 6 E (1) to the financial statements.

OBLIGATIONS OF THE BANK WITH RESPECT TO CAPITAL MARKET OPERATIONS

In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading.

The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds.

However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

EXEMPTIONS OF INDEMNIFICATION TO DIRECTORS OR FORMER DIRECTORS IN THE BANK OR INVESTEE COMPANIES OF THE BANK

The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest, as detailed in Note 19 C 8 a to the financial statements. Accordingly the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For details regarding exemption in advance and indemnification of Directors and other Officers of the Bank, see Note 19 C 8 m to the financial statements.

AGREEMENTS WITH FIBI AS TO THE HOLDING OF MEANS OF CONTROL IN ICC

On December 10, 2006, alongside the consummation of the agreement for the purchase of the shares in ICC held by Fishman, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement between the parties dated September 29, 2000. The arrangements determined in the agreement apply, respectively, also to the shares purchased from Harel.

For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

LABOR CHARTER

The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter. Within this overall context, the “update, stages and determination of salary ceilings for new employees” agreement was signed in 2011. See “Developments in labor relations” under "Human resources” above.

AN AGREEMENT FOR THE GRANTING OF LOANS AND SERVICES TO STATE EMPLOYEES

On May 10, 2007, the Bank signed an agreement for the granting of loans, overdraft and banking services to State employees following its success in the tender issued by the Accountant General. For further details see "Retails banking sector - household segment" in the Chapter "Activity of the Group according to principal segments of operating" and Note 19 C 17 to the financial statements.

ISSUES REGARDING CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE FOR THE DISCOUNT GROUP

The corporate governance code approved by the Bank's Board of Directors on October 28, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel II guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. The corporate governance code was discussed in January 2014, by the corporate governance committee, and it has been decided to update it. The updated version will be submitted for approval by the Board of Directors.

Within the framework of the implementation of the corporate governance program, the Bank's Board of Directors approved in January 2012 a work procedure vis-à-vis the subsidiary companies, which is designed to regulate the interfaces between the Bank and its subsidiaries, with a view of preparing an infrastructure for management on a group level, and determine a work format for the supervision and control over the activities of subsidiary companies by the parent company. Within the framework of the work procedure vis-à-vis the subsidiary companies, supervision and control mechanisms have been set, which are designed to assure the proper and effective operation of the Discount group including with respect to the following items: activity and transactions with related parties; supervision by the Bank's Board of Directors over companies in the Group; reorganization and structural changes; the formation of a group risk management policy regarding various areas.

INTERESTED PARTY TRANSACTIONS APPROVAL PROCEDURE

The Bank's Board of Directors adopted a legal opinion rendered by a prominent legal expert, according to which transactions between interested parties in the Bank and its subsidiary companies shall be approved in accordance with procedures determined by the Israeli Law with respect to approval of transactions with the Bank itself.

On March 17, 2013, the Board of Directors approved the interested party transactions approval procedure, within the framework of which, the said opinion in the matter of approval of transactions with interested parties, has been implemented. 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.

CORPORATE GOVERNANCE QUESTIONNAIRE

As part of the project for the improvement of financial statements, the Israeli Securities Authority published in September 2012, a guideline in terms of Item 36A(b) of the Securities Act, 1968, according to which, public companies were required, in the periodic report for the year 2012, to submit a "corporate governance questionnaire" in the format stated in the guideline. The effect of the guideline issued under Section 36A(b) of the Securities Act is limited to one year, though, with the approval of the Minister of Finance, it may be extended for one additional year. The Authority decided to establish this guideline in Regulations, as part of the project for the improvement and shortening of the reports, and therefore the guideline of the disclosure has not been extended by one additional year. Accordingly, no binding instruction in this matter applies to the 2013 annual report.

The Authority has orally clarified that it encourages corporations to voluntarily submit the questionnaire for 2013. The Authority further clarified that corporations electing to append the said questionnaire would have the option of appending the version of the questionnaire according to the elapsed guideline or in the format of the published draft regulations.

The Bank has decided to voluntarily submit a corporate governance questionnaire in the updated format.

The Bank's corporate governance questionnaire is available for perusal at the MAGNA website of the Israeli Securities Authority[3] and at the MAYA website of the Tel Aviv Stock Exchange Ltd., as well as at the Bank's website.

GROUP MANAGEMENT

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues.

Within the framework of an amendment to Proper Conduct of Banking Business Directive No. 301 (“the New Directive”), which entered into effect on January 1, 2012 (see “Legislation and supervision” below), instructions have been prescribed with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group.

The new Directive includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company.

[3] The English translation of the questionnaire is available for perusal at the Bank's website.

Within the Discount Group Strategic plan, approved in July 2011, the Board of Directors formed principles for group management, taking into consideration the circumstances of each subsidiary company, its field of operation and size. Within this framework it was determined, among other things, that in certain of the areas – strategy, accounting group, risk management, internal audit, legal advisory and information systems – the relevant units at the Bank will guide the subsidiaries by way of a "binding professional guideline". In certain matters, particularly with respect to administrative matters, administration will be performed by a "central management" format, with a view of increasing efficiency and utilizing synergic advantages.

In January 2012, the Board of Directors approved the work procedure vis a vis the subsidiary companies, the aim of which is to regularize the interfaces between the Bank and the subsidiary companies, with a view of creating a management infrastructure on a group basis and to enable the Bank to supervise the activities of the subsidiary companies. Among other things, the procedure regularizes the basic principles for group management, and the areas to be managed on a group basis, including: strategy, capital planning and risk management. In addition, the procedure regularizes the supervision and control framework over the subsidiary companies through audit and control functions that are responsible for risk management on a group basis within the area of their responsibility. Furthermore, the procedure framework established reporting mechanisms by the subsidiary companies to the bank, as well as rules regarding transactions requiring the Bank's approval prior to their being approved by the subsidiary companies. The Bank is acting to integrate the procedure, and to form the work interfaces between the subsidiaries and the various parties responsible for the business and supervisory aspects of the subsidiaries' activities.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above.

For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" above.

THE INTERNAL AUDIT IN THE GROUP IN 2013

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.

The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit).

In addition, as from May 18, 2011, Mr. Abel serves also as the Internal Auditor of ICC.

The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.

Letter of appointment. The Audit Committee of the Board and the Board of Directors approved in January 2012 the letter of appointment of the Internal Auditor, and in January 2013, they approved an update of the letter of appointment.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives.

The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel II, COSO, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function).

Prior to the work plan being submitted for approval, it is forwarded to the Bank’s independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board’s Audit Committee and to the Bank’s President & CEO for lodging comments and elucidations. The Board of Director’s Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval.

A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank`s internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank’s investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank’s Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules.

In addition, the Bank’s Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 104.6 positions (including overheads; not including 2.5 outsourcing positions), of which, 33 positions in corporations that engage an independent Internal Auditor (MDB, IDB New York, Discount Bank Latin America and IDB (Swiss)). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Following are details of the average number of positions in 2013 engaged in internal audit at the Bank and in investee companies in Israel and abroad:

	Group employees	Outsourcing employees
The Bank	57.6	1.5
Investee companies in Israel audited by the Bank's internal auditor[1]	11.5	0.5
In overseas extensions	2.5	-
Investee companies in Israel where the audit is performed by an independent internal auditor[2]	18.0	0.3
Investee companies abroad where the audit is performed by an independent internal audito[3]	15.0	0.2
Total	**104.6**	**2.5**

Notes:

(1) Of which, 6.5 positions in ICC.

(2) Of which, the internal auditor. Not including 1.9 positions of costumer complaints.

(3) Of which, 9.75 auditors of IDB New-York, 5 auditors of DBLA, 0.2 positions in IDB (Swiss) Bank.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.

During the reported period, an audit has been performed in respect of a material transaction (within the meaning of the term in Proper Conduct of Banking Business Directives) effected in 2012.

Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.

Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.

A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.

The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed in Israel and abroad, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved.

The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed with the President & CEO and with the relevant members of Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.

In addition, the audit committee of the board discusses specific audit reports regarding the Bank’s units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.

The periodic reports were submitted and discussed as follows:

- Report on the activities of the internal audit in the fourth quarter of 2012, submitted on January 29, 2013, and discussed by the Audit Committee on February 17, 2013;
- Annual report on the activities of the internal audit in 2012, submitted on April 9, 2013, and discussed by the Audit Committee on April 17, 2013 and by the Board of Directors on April 29, 2013;
- The quarterly report on the activities of the internal audit in the first quarter of 2013 was submitted April 23, 2013, and discussed by the Audit Committee on June 30, 2013;
- 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 third quarter of 2013 was submitted on October 29, 2013, and discussed by the Audit Committee on November 26, 2013;
- Report on the activities of the internal audit in the fourth quarter of 2013, submitted on January 19, 2014 and discussed by the Audit Committee on February 4 and 25, 2014.

The annual report regarding the activities of Internal Audit in 2013 is being submitted these days.

Valuation by the Board of Directors of the Internal Auditor’s performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals setout for internal audit at the Bank.

Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor’s professional judgment.

Details of the recipient			Remuneration* for services							
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total salary, awards, employer's provisions and benefits(3)	Share based payment	Total	Loans granted under regular terms
					in NIS thousands					
2013	100%	-	985	904	85	164	2,138	-	2,138	-
2012	100%	-	969	-	273	80	1,322	-	1,322	-

* The amounts of the remuneration are in cost terms to the Bank and do not include payroll tax.

(1) Includes adaptation award, severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) The award includes an annual award in respect of the year 2013 and a long-term award in respect of the years 2011-2013, see Note 16I to the financial statements.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law and also to a retirement award in an amount equal to four monthly salaries. Mr. Abel is entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements. Mr. Abel, waived his award in respect of 2012.

INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The volunteer activity within the framework of the "Lema'an" Project continued during 2013 - Discount Employees for the Community, in the framework of which, volunteer Bank employees contribute their time and compassion. The volunteer activity is varied and provides assistance and support to a wide range of components of the population in Israel: children and youth, students, servicemen, disadvantaged sectors, elderly, handicapped, infirm and such like.

In addition to the activities of "Lema'an" - Discount Employees for the Community project, described hereunder, the following activities were also conducted in 2013 in the culture and arts field, providing sponsorship and donations.

In 2013, the Bank continued the trend of supporting children and youth in various states of distress.

Monetary scope of activity. The total volume of activities of Discount group in 2013, including the Lema'an Project, amounted to NIS 5,960 thousand, compared with NIS 6,353 thousand in 2012. In addition, the Bank has borne the cost of the staff of the social responsibility unit and the cost of additional entities at the Bank who were directly engaged with various issues of social responsibility, as part of their working hours, in a total amount of NIS 1,472 thousand in 2013, compared to NIS 1,523 thousand in 2012. Furthermore, direct current cost associate with the Visitor Center (tour guide personnel and building maintenance) amounted in 2013 to NIS 4,130 thousand, compared with NIS 4,011 thousand in 2012. Miscellaneous expenses, including expenses for production of the Corporate Social Responsibility Report and participation by Bank Management in financing of the "March for the living" visit to Poland, amounted in 2013 to NIS 396 thousand, compared to NIS 297 thousand in 2012.

The social activity and involvement in the community was carried out by the Bank in the following areas: education, knowledge, having special needs, health, and more.

DONATIONS

Donations are directed mainly to associations, clubs, education establishments, health organizations and others, that focus on children and personal welfare. Among the donations granted in 2013, noteworthy are those granted to following associations: Association for the Wellbeing of Israel's Soldiers, ALEH Negev - Nahalat Eran, Jordan River Village, Sunrise, Reut Medical Center, Migdal-Or, Yad Sarah, Alin Noam House, the Association for Advancement of Education in Jaffa, Ramon Foundation, the Mayanei Hayeshua , Sheba and Rabin medical centers. The West Wall Heritage Foundation, Lirot, Blind D – The Top Organization for the Blind in Israel, ALS, AT and more.

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

The varied activity continued in 2013, while focusing on voluntary activities in the framework of various associations acting in aid of youth at risk and in distress and various associations. During 2013, branches and new units joined the Bank's volunteer circle.

The following projects conducted in 2013 deserve special mention:

Adoption of Regiment 405. At the beginning of 2011, DMB committed to adopt Regiment 405 of the Artillery Corp for an additional period of three years. Upon consummation of the merger between DMB and the Bank, the latter has also taken over this commitment.

Adoption of Squadron 916. In 2012, the Bank committed to adopt Squadron 916 of the Israeli Navy for an additional period of three years in continuation to six years of adoption of that squadron (within the framework of the "Adopt a combat soldier" project of the Association of Friends of the IDF).

"Discount Fund" at the "Ezra LeMarpe" Association. The Bank continued its support of the Fund, whose goal is to offer financial assistance, for the fifth year running. Approaches in the matter of health received by the Bank are referred to the Association for examination of the case and its various aspects. Where the case is found deserving of assistance it is awarded out of the Fund.

"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 together with their coordinators from the Association came to the Discount College, where they were given instruction on the subject of work qualification and skills.

Ramon Foundation. In 2013, the Bank joined the "Ramon Award" program, the mark of quality, excellence and leadership, in memory of Ilan and Asaf Ramon. Within the framework of the program, eight young persons excelling in their studies and especially outstanding in their community volunteer work, as leaders of social change. The aim of the program is to encourage excellence and leadership among youth in Israel, in the image of Ilan and Asaf Ramon, who represent a personal example in their personality, deeds and achievements. The eight elected youth are to undergo a several months' course increasing their proficiency and skills, within the framework of which they would be qualified to lead varied projects for the reduction of various differences and social advancement in Israel.

The "Hope" enterprise. In 2013, the Bank joined the "Hope" Enterprise together with: Ananey Communications, Ness Technologies, Joint Israel, Altshuler Shaham, The Friendship Foundation, ORT Israel and Orange. This enterprise will be the first social Internet "Google" enterprise in Israel, which would connect anyone who is willing to give with anyone who requires help, and would coordinate all the information about rights and laws in the State of Israel – social and civic work and the various possibilities for volunteer work.

Varied voluntary activities. Employees of the Bank engage in voluntary activities at various centers, including: children clubs, senior citizen clubs, schools, shelters for molested women, drug rehabilitation centers, "Ma'as" (center for adults with special needs), children with special needs, hospitals, etc.

Purim events at volunteering venues. Bank employees conducted Purim parties at centers in which they work as volunteers; children clubs, senior citizen clubs, schools, a shelter for battered women, drug rehabilitation center, Chimes - Rehabilitation Work Centers (adult population having special needs), children with special needs, hospitals etc.

Assistance to needy families towards the Passover holiday. In line with the Bank's tradition, the Bank rallied once again to assist needy families. The Bank distributed 180 gift cards in the value of NIS 300 each, to families in need through the "Hom" association.

Bazaar for the sale of products made by persons with special needs. Towards the Passover and the Jewish New Year holiday, the Bank has assisted in setting up a bazaar (on Bank premises) in which Bank employees could buy items made by handicapped individuals. Income from sales was contributed towards the continued activities of associations employing the handicapped. The products were produced by persons having special needs working under the auspices of the following associations: ENOSH Rishon Le'Tzion (the Israeli Mental Health Association), "Meital House" (special education for adults), "Kishorit" (adults with special needs), "Beit Miriam" (ILAN) and the rehabilitation center for injured servicemen.

The "For the Community" website. The "For the community" website operates on the employee Intranet site. The site includes up-to-date contents regarding the Bank's activities in aid of the community, details regarding volunteer work performed by the Bank's various units as well as details regarding additional areas of volunteer work which may be joined.

"SPRINT FOR THE FUTURE" - DISCOUNT BANK'S FLAG SHIP PROJECT

In 2005 Israel Discount Bank joined forces with "Sprint for the Future" Association adopting the program focused on school age children from peripheral regions with difficulties in their studies. The program's objective is to provide assistance to school children so that they will be able to graduate high school, attaining a full matriculation certificate, enabling them to continue with higher education. The name of the program is "Discount Start Up".

The Bank is a party to both the financial support of the Association as well as to promoting and advancing its activities. Representatives of the Bank's management are members of the executive board of the Association, and employees of the Bank have started voluntary activity in the framework of the Association's programs, among other things, in the form of the adoption by nearby Bank branches and Banks units of schools participating in the project.

The late Nissim Alagem Fund. In January 2007 the Bank inaugurated a scholarship fund for academic studies. The Fund is named after the late Nissim Alagem, who passed away in 2006. Mr. Alagem worked at the Bank for 40 years, in his last post serving as Executive Vice President head of the Commercial Banking Division. Within the framework of the Fund, the Bank grants an annual contribution to finance the academic studies of young persons, graduates of the "Discount Startup" Project, who successfully completed their matriculation studies. The Fund will enable graduates of the "Discount Start-up" Project to continue their academic studies at higher education institutions.

CORPORATE RESPONSIBILITY REPORT

On the background of developments regarding the issue of corporate responsibility reporting, and in view of the importance that the Supervisor of Banks attributes to the activity of banking corporations in this respect, the Supervisor of Banks issued on October 3, 2011, a circular, according to which banking corporations heading the banking groups will be required to publish reports for a period of up to two years concerning corporate responsibility, including: ethics in business, corporate governance, commitment to the environment, involvement in the community, etc. The first report in this framework will be presented in 2014.

It should be noted that the Bank has already published two Corporate Responsibility Reports.

GLOBAL COMPACT

In March 2013, the Bank submitted the second annual progress report regarding the Bank's social and environmental activities. The report discusses the promotion of the principles of the Organization in 2012, which were focused on four main areas: human rights maintenance, responsible employment, maintaining the quality of the environment, ethical conduct and prevention of corruption.

The Global Compact comprises a United Nation initiative, which the Bank joined in September 2010.

The Report is available to the public at the website of the Organization: http://staging.unglobalcompact.org/COPs/advanced/21421 and at the Bank's website.

ENVIRONMENTAL RESPONSIBILITY - FILING DATA TO THE CARBON DISCLOSURE PROJECT (CDP)

In October 2013 the Bank has completed filing its data to the CDP, for the second year running. The CDP is an independent non-for-profit international organization, located in London, which acts towards the reduction in emission of greenhouse gases by corporations, organizations and cities all over the world, through a voluntary reporting and transparency mechanism. The Organization serves as a source of information for investors, corporations and governments when coming to examine environmental operations of corporations and cities, as well as the future risks to which they might be exposed. The reporting organizations may elect not to reveal to the Organization their full report but only the final grading granted to it, though this lowers the level of transparency presented by the reporting organization.

Among the reporting banks presenting their reports to the public are leading banks around the world, such as: the Royal Bank of Scotland and Bank of America. Discount Bank is the only Bank in Israel that has elected to report to the CDP.

INVOLVEMENT IN AND CONTRIBUTION TO THE COMMUNITY BY THE PRINCIPAL SUBSIDIARIES

Following are descriptions of several prominent projects carried out by the principal subsidiaries:

"ICC for all". In 2013 ICC commenced this program, which is a social responsibility program, in cooperation with ten municipal authorities countrywide. Each department of ICC chose a target population and the staff of these departments lead social projects in accordance with that populations needs. Tens of significant activities have been conducted by the managers and staff of ICC within the framework of this program.

"Another lesson". ICC takes part in a project of "A Different Lesson" association, which lanes the wealth of knowledge found among the public into enriching and enhancing the educational system, by inviting citizens from the business and public sectors, who are professionals in various fields, to come into the schools and give inspiring enrichment courses. Company employees joined this association’s voluntary setup within the educational system and invited school children to the Company's offices for an inspirational day to experience the world of finance and credit.

A start-up project in the Arab sector. In 2013, MDB continued the educational project launched in 2008, jointly with "Sprint for the Future" Association, within the framework of which this bank granted this year 77 scholarships for studies at academic institutions to Arab sector students who were found deserving of these scholarships, in return for their commitment to contribute time to community work The cost of this project amounted to NIS 0.6 million in 2013.

Participation in an educational project. MDB Bank has been participating also in 2012 in a project conducted by "Yad Eliezer" Association, within the framework of which this bank has granted 400 scholarships to Yeshiva students, at a total cost of NIS 0.2 million, in consideration for their commitment to serve as tutors to children of disadvantaged families in the ultra-orthodox sector.

"Computer for every child". Support for the operations of the project (sponsored by the Government of Israel), within the framework of which, Mercantile Discount Bank participated by contributing approx. 100 computer sets to children of deprived families at a cost of approx. NIS 100 thousand.

"THE MARCH OF THE LIVING"

In April 2013, a delegation of Discount Bank employees participated, for the eleventh time, in the "March of the Living" from Auschwitz to Birkenau that takes place every year on the Memorial Day for the Holocaust and Heroism. The delegation numbered 80 of the Bank's staff and ICC's staff. This continued a tradition started on 2003, of participation of a Discount Group delegation in the "March of the Living", the Bank and the Employee Union participating in the cost thereof.

EMPLOYMENT OF HANDICAPPED PERSONNEL

As part of its personnel recruitment policy, the Bank offers disabled persons, who generally are not accepted by employers, the opportunity of being integrated into positions at the Bank suitable to their ability and according to the Bank's requirements. This offers such persons the opportunity to function as regular citizens who provide for themselves with self respect. In addition, this measure will shape the organizational culture of the Bank, as an organization that is open-minded toward those who are different. In light of the aforesaid, the employment of handicapped personnel has been defined as a primary focal point in the Bank's communal activity.

As of December 31, 2013, 63 handicapped personnel are employed at the Bank (December 31, 2012: approx. 70 personnel).

"HERZELILINBLUM" - BANKING AND TEL AVIV NOSTALGIA MUSEUM

The Herzelilinblum Museum of Banking and Tel Aviv Nostalgia. The museum provides the possibility of a close study of the history and economics of Israel since the beginning of the last century. The Museum is located in a one hundred and five year old preserved building, one of the first houses of Ahuzat Bait.

Visitors. Since its opening in May 2009, the Museum hosted some 220 thousand visitors of various populations: organized groups, business corporations, young people, servicemen, students and more. In 2013, the Museum hosted some 33 thousand visitors, within the framework of some 670 tours, seminars and events of different kinds.

Tours and seminars. During the academic year, some 90 tours per quarter on an average are being conducted for school children of seventh to twelfth grade. Part of the tours, lasts one and a half hours with a focus on economic issues and the other part, designed for the higher grades, comprise seminars of five hours on the subject of the Stock Exchange and the monetary policy of the Bank of Israel as well as a seminar on civic matters.

About 300 tours for children and their families were conducted during the school vacation: "My money, a seminar for young economists" – economic seminars; "The cup is ours" – tours focused on sports matters.

Some 300 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.

Conferences and events. The museum hosts conferences and various events initiated by the Bank. In 2013, the Bank held some 60 events for the Bank`s units and the Bank`s customers, as well as some 80 events and unique tours for corporations, forums and business organizations.

"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.

Many events have been held within the framework of the exhibition, among which: The granddaughters of Rebecca Sieff and their families; Mrs. Rachel Bolton and her guests, Mrs. Dorit Beinisch, former President of the Supreme Court, family and friends, children of Mrs. Diddie Ross-Harel and their families, Mrs. Yael Rozen – an event for the Education Department of the Tel Aviv University and an event for colleagues and family; event dedicated to the poet Leah Goldberg; hosting the family and friends of the late Naomi Shemer, on occasion of her birthday. Two academic study days were also held within the framework of the exhibition, with the participation of lecturers from the gender field, with 100 participants in each study day. Several additional events were held by women associations (Naamat, WIZO, Emuna), and more.

Cooperation with the Ministry of Education. Since the establishment of the Museum, thousands of students have visited it, pupils from seventh to twelfth grades from all over the country, each age group being allotted a tour plan.

As part of the continuing cooperation with the Ministry, a new tour has been developed in 2013 for middle and high school students, dealing with the economic policies of the late Prime ministers Mr. David ben-Gurion and Mr. Menachem Begin, as a derivative of their ideologies.

Seven conventions were held during the year - study days of five hours each for supervisors and teachers, numbering about fifty participants in each event.

"MA'ALEH" RATING FOR 2013

In June 2013, "Maala" published its rating for 2013. A new rating category was added as of 2012 – Platinum Plus (awarded to companies with an absolute score of over 90). The Bank has been rated in the Platinum Plus category. The rating is based on criteria detailed in six central areas of corporate responsibility: environmental protection, business ethics, human rights and work environment, involvement with the community, corporate governance and social environmental reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

ARTS

Discount's art collection contains some 1,960 original works and about 4,200 lithographs of the best of Israeli artists, representing a fascinating and varied assortment of making over more than fifty years and includes sculptures, paintings, tapestries, video art and photographs. The Bank's art collection is considered one of the quality collections of Israeli art.

Lending works of art. Cooperation with various museums continued in 2013. Within this framework the Bank lent works from its art collection. The Bank loaned five works of the artist Naftali Bezem to an exhibition of the artist "Coming and Going" held in the Tel Aviv Museum of Art. Five works of art have been on loan to the Tel Aviv Museum of Art, for the exhibition "The Conspiracy of Nature" of the artist Deganit Berest. Seventeen works of art have been on loan to the Mané Katz Museum in Haifa, for the exhibition "After the School of Paris".

Discount Art Album No. 16. Taking part in this Album are the photography artists Uri Gershuni, Shachar Marcus, Hanna Sahar and David Adika. These artists have experienced a meeting of two worlds: photography, belonging mainly to the new world, and engraving which largely relies upon ancient techniques. The Album was launched in February 2013. To date, dozens of artists participated in the Discount Albums project which began in 1978, numbering 16 albums and 117 reproductions.

"My Family" – exhibition of drawings by AKIM children. The exhibition was presented during March-April 2013 at the Herzlilinblum Museum. The drawings were offered for sale, all proceeds being contributed to the AKIM Association. The event was opened by the Chairman of Friends of AKIM association, Mr. Ami Ayalon and by the President & CEO of the Bank.

"Compound". A group exhibition presented at the Herzlilinblum Museum in December 2012 to February 2013. The artists participating in the exhibition were Adi Brande, Tali Navon and the late Yehudit Metzkel, whose works related to the question of place and time, of urbanization and the status of the individual in the human texture of the city. Gallery discussion groups were held during January 2013 within the framework of the exhibition, with the participation of the artists Adi Brande and Yehudit Metzkel (who passed away soon after the event).

A stage for the artist. The project "A stage for the artist" is intended to provide exposure to artists within the premises of the Bank's branches. In this framework, the following exhibitions were presented in 2013: Sculpture exhibition at the Afeka Branch - The artist Jackie Vanunu exhibited her sculpture works at the Afeka Branch; Bat-Yam Branch – "Meetings between feelings and color" - An exhibition of Bat-Yam artists Carmel Center Branch – the artist Ilana Ud showed her works at the exhibition "My Haifa" held at the Branch; Haifa Main Branch – a group exhibition for Haifa artists; Tel Aviv Main Branch – sculpture exhibition of the artist Gadi Fraiman.

Guided public tours. Guided tours of the Bank's art collection, open to the public, are conducted on Friday mornings at the Discount Tower. Some 50 tours were made during 2013, in which some 1,800 visitors have participated.

The Discount Museum website. The Bank attributes great importance to the maintenance and cultivation of its art collection and is proud to exhibit a selection of the works included therein to the public at large through the Discount Museum website. The works selected for presentation are arranged according to themes in a manner that enables the public to learn about the structure of the collection and the Bank's contribution to cultural and community life in Israel. The address of the site is: http://www.discountbank.co.il/museum.

SPONSORSHIPS

During 2013, the Bank granted sponsorship to entities and activities promoting goals in areas of community, activities in aid of weak populations, health, sporting, cultural, artistic and educational, environmental protection, science, energy and business.

AUDITORS' REMUNERATION[(1)(2)]

Below are particulars of the remuneration that was paid to the auditors (in NIS thousand):

	Consolidated		The Bank	
	For the year ended December 31,			
	2013	2012	2013	2012
For Auditing[(3)]:				
To the joint auditors	17,530	19,682	7,277	7,934
For Other Services:				
Audit related services[(4)]:				
To the joint auditors	2,439	3,239	2,376	3,223
Taxation Services[(5)]:				
To the joint auditors	3,299	3,907	1,440	1,815
Other Services:				
To the joint auditors	2,769	3,151	1,833	2,190
To other auditors	238	111	-	-
Total	**8,745**	**10,408**	**5,649**	**7,228**
Total Auditors' Remuneration	**26,275**	**30,090**	**12,926**	**15,162**

Footnotes:

(1) The auditors' remuneration includes payments to partnerships and corporations under their control and also includes payments pursuant to the VAT law.

(2) Includes remuneration that has been paid and remuneration that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

REMUNERATION OF INTERESTED PARTIES AND SENIOR OFFICERS AND TRANSACTIONS WITH CONTROLLING SHAREHOLDERS

REMUNERATION OF INTERESTED PARTIES AND SENIOR OFFICERS

Year 2013

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total salary, awards, employer's provisions and benefits	Share based payment(3)	Total	Loans granted under regular terms
				in NIS thousands							
Dr. Joseph Bachar	Chairman of the Board	100%	(4)-	1,951	2,160	839	139	5,089	(1,020)	4,069	-
Mr. Reuven Spiegel(5)	President and CEO of the Bank	100%	-	2,147	2,888	826	144	6,005	(1,659)	4,346	-
Mr. Jorge Perez(6)	President and CEO of Discount Bank Latin America	100%	-	2,552	-	2,663	43	5,258	-	5,258	-
Mr. Doron Sapir	President and CEO of ICC	100%	-	1,259	692	1,448	62	3,461	-	3,461	34
Mr. Ehud Arnon	President and CEO of IDB New York	100%	-	2,201	900	227	63	3,391	-	3,391	-
Mr. Shlomo Avidan(7)	Executive Vice President, Head of Operations and Logistics Division	100%	-	1,080	(8)934	680	175	2,869	-	2,869	1
Mr. Joseph Beressi	Senior Executive Vice President, Chief Accountant	100%	-	1,109	(8)1,028	254	181	2,572	-	2,572	-
Mr. Yair Avidan	Executive Vice President, Chief Risk Manager and Head of Risk Management group	100%	-	1,070	(8)1,009	229	164	2,472	-	2,472	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,088	(8)1,007	100	194	2,389	-	2,389	-

* The amounts of the remuneration are in cost terms to the Bank and do not include payroll tax.

(1) Includes adaptation award, severance pay, retirement award, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) In respect of splitting over future periods the benefits relating to "Phantom" option plans. At each reporting date the benefit is adjusted to fair value.

(4) Mr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(5) Mr. Spiegel terminated his office as President and CEO of the Bank on February 19, 2014.

(6) Mr. Perez terminated his office as CEO of the Discount Bank Latin America on January 10, 2014.

(7) Mr. Shlomo Avidan will terminate his office as Head of Operations and Logistics Division on April 30, 2014.

(8) The award includes an annual award in respect of the year 2013 and a long-term award in respect of the years 2011-2013, see Note 16I to the financial statements

Year 2012											
Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Supplemental reserve(2)	Total payroll, awards and employer's provisions	Share based payment(3)	Total	Loans granted under regular terms
				in NIS thousands							
Dr. Joseph Bachar	Chairman of the Board	100%	(4)-	1,918	(5)-	674	154	2,746	370	3,116	-
Mr. Reuven Spiegel	President and CEO of the Bank	100%	-	2,101	(5)-	753	93	2,947	986	3,933	-
Mr. Jacob Tennenbaum(6)	President and CEO of Mercantile Discount Bank	100%	-	1,593	418	1,721	158	3,890	-	3,890	71
Mr. Ehud Arnon	President and CEO of IDB New York	100%	-	2,305	1,344	148	-	3,797	-	3,797	-
Mr. Jorge Perez(8)	President and CEO of Discount Bank Latin America	100%	-	2,266	164	559	41	3,030	-	3,030	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,912	390	148	-	2,450	-	2,450	-
Mr. Maoz Franko	President and CEO of Israel Discount Capital Market & Investments	100%	-	884	1,190	169	-	2,243	-	2,243	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,072	(7)-	273	102	1,447	-	1,447	-
Mr. Shlomo Avidan	Executive Vice President, Head of Operations and Logisitics Division	100%	-	1,063	(7)-	271	107	1,441	-	1,441	5
Mr. Yair Avidan	Executive Vice President, Chief Risk Manager and Head of Risk Management groupe	100%	-	1,053	(7)-	301	82	1,436	-	1,436	-
Mr. Yigal Ronay	Executive Vice President, Head of the Finance Division	100%	-	978	(7)-	319	104	1,401	-	1,401	-

* The amounts of the remuneration are in cost terms to the Bank and do not include payroll tax.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) In respect of splitting over future periods the benefits relating to "Phantom" option plans. At each reporting date the benefit is adjusted to fair value.

(4) Mr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(5) Waivered an award in respect of 2012 – see Note 22 G.

(6) Mr. Tennenbaum terminated his office as CEO of Mercantile Discount Bank on March 31, 2013

(7) Waivered an award in respect of 2012 – see Note 16 I 7.

(8) Included in the table following a renewed examination of the data.

Dr. Yossi Bachar - serves as Chairman of the Board of Directors since January 3, 2010. For details regarding the terms of engagement of Dr. Bachar, see Note 22 F and G to the financial statements. For details regarding the phantom option plan granted to Dr. Bachar, see Note 13 D 1 to the financial statements.

Mr. Reuven Spiegel, Mr. Spiegel acted as President & CEO of the Bank in the period from January 1, 2011 to February 19, 2014. For details regarding the terms of engagement of Mr. Spiegel, see Note 22 G and I to the financial statements. For details regarding the phantom option plan granted to Mr. Spiegel, see Note 13 D 1 to the financial statements.

Mr. Jorge Perez was the President and CEO of Discount Bank (Latin America) ("DBLA"), and was employed by DBLA as an "employee at will." Mr. Perez retired effective January 10, 2014. Mr. Perez enjoyed the customary benefits granted to all members of DBLA's senior management. Year-end 2013 employer's payments and provisions related to Mr. Perez include a severance accrual of $550,000 payable upon retirement.

Mr. Doron Sapir, acts as CEO of ICC since January 15, 2013. His engagement is subject to a personal labor agreement for a determinate period as from January 15, 2013 and until January 14, 2018. Thereafter, the agreement continues for an indeterminate period. In addition to his monthly salary, Mr. Sapir is entitled to paid vacation, paid sick leave, recreation pay, a suitable motorcar, social benefits (severance pay in accordance with the law, provident fund contributions, loss of work ability insurance and further education fund contributions) as well as other benefits. Upon termination of office, Mr. Sapir is entitled according to the agreement to severance pay in accordance with the law. In addition, Mr. Sapir is entitled to an adaptation award as follows: If, in accordance with the decision of the company, Mr. Sapir's period of engagement is terminated during the determinable period and before the end of two years from the start thereof, then he would be entitled to an award equal to nine monthly salaries; if, at the wish of any of the parties, the period of engagement will terminate after the end of two years from the start of the engagement, including after the end of the determinate period, then Mr. Sapir will be entitled to an award equal to six monthly salaries. The non-competition period is six month from date of termination of employment, unless the parties otherwise agree. Mr. Sapir is entitled to an annual award composed of an amount computed according to a formula based on attainment of the indices of ICC, and of an additional award determined at the discretion of the Board of Directors of ICC (hereinafter : "the additional award"). In a year of award, in respect of which Mr. Sapir shall not be entitled to the award computed on the basis of attainment of goals, he would also not be entitled to the additional award. The payment of the annual award in respect of an award year shall be made in three installments. If in a certain award year all threshold terms are not fulfilled, then all the deferred installments that would have been paid on date of payment of the annual award in respect of that year, shall be cancelled and not paid.

Mr. Ehud Arnon, President & CEO of IDB New York, is employed by the subsidiary under a personal agreement. The period of employment is until December 31, 2013, following which the agreement will be automatically renewed each time for a period of one year which may be terminated by either of the parties with a prior notice of four months. Upon termination of his employment, Mr. Arnon will be entitled to a payment equal to one year salary. Mr. Arnon's monthly salary is reviewed by IDB New York every year. Mr. Arnon is entitled to social benefits (National Insurance contributions and pension within the framework of the pension plans in effect at the subsidiary), as well as to life assurance, medical care and loss of work ability insurance. Mr. Arnon is entitled to an annual award on condition that IDB New York reaches 75% of the forecasted annual earnings in accordance with the annual work plan. IDB New York provides Mr. Arnon with an appropriate motor vehicle and is also entitled to an annual home leave in Israel.

Mr. Shlomo Avidan, employed by the Bank as Executive Vice President, Head of the Operations and Logistics Division. Mr. Avidan's office will be terminated on April 13, 2014. Mr. Avidan is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. Mr. Avidan is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Avidan is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits as well as to a retirement award in an amount equal to 9 monthly salaries. Mr. Avidan is entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Mr. Joseph Beressi, employed by the Bank as Senior Executive Vice President, Chief Accountant and head of the Accounting Group. Mr. Beressi is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Beressi is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Beressi is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Beressi is entitled to severance payment in accordance with the law as well as to a retirement award in an amount equal to 8 monthly salaries. Mr. Beressi is entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Mr. Yair Avidan, employed by the Bank as Executive Vice President, Chief Risk Officer and head of Risk Management Group. Mr. Avidan is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Avidan is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Avidan is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Avidan is entitled to severance payment in accordance with the law as well as to a retirement award in an amount equal to 4 monthly salaries. Mr. Avidan is entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Mr. Yuval Gavish, employed by the Bank as Senior Executive Vice President, Head of the Banking Division. Mr. Gavish is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of 4 months. According to the agreement, Mr. Gavish is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Gavish is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Gavish is entitled to severance payment in accordance with the law and also to a retirement award in an amount equal to four monthly salaries. Mr. Gavish is entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Mr. Jacob Tennenbaum. Acted as CEO of the subsidiary, Mercantile Discount Bank Ltd. (hereinafter: "MDB"), until March 31, 2013.

Mr. Tennenbaum’s salary was linked to the CPI. Mr. Tennebaum was entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits as determined by law, provident payments, loss of ability to work insurance and further education fund) as well as other benefits.

According to the employment agreement, Mr. Tennenbaum was entitled upon his retirement to severance pay and a special award, equal to six months' salary, and was prohibited from engaging in a business that would constitute as competition to MDB, for a period of three months from the date of his retirement.

Following the announcement of his retirement, it was decided to add additional retirement arrangements to the employment agreement, including: payment of an additional award in the amount of NIS 1.8 million, which was paid to Mr. Tennenbaum upon his retirement, in consideration for his consenting to extend the "Non-competition" period from three months to a year, commencing from April 1, 2013. In addition, upon his retirement Mr. Tennenbaum is entitled to "pensioner" terms (as defined in MDB's labor agreement) and to redeem his accumulated unutilized vacation days. In view of his considerable talents and experience in the retail banking sector, MDB has decided to engage with Mr. Tennenbaum for the provision of consulting services in an annual amount of NIS 600 thousand. The agreement will be for a term of one year.

Ms. Ilyse Baum, Executive Vice President and Chief Lending Officer of IDB New York, is employed by the subsidiary as an "employee at will." Ms. Baum's salary is reviewed and approved annually by IDB New York's Compensation Committee of the Board of Directors. Ms. Baum enjoys the customary benefits granted to all members of IDB New York's Senior Management. Ms. Baum participates in IDB New York's Pension Plan, 401(k) Plan, and Deferred Compensation Plan. Under the terms of IDB New York's Severance Plan, Ms. Baum is entitled to a severance payment equal to one year's salary if terminated.

Mr Maoz Franko, the CEO of the subsidiary Discount Israel Capital Markets Ltd. (DCM), is employed under a personal employment agreement for an indeterminate period, which either of the parties could terminate giving a prior notice of three months, which may be extended for an additional period of three months in consideration for an increased salary (150%). The period of prohibition of competition determined in the agreement is twelve months following the termination of his office at DCM, and the period for maintaining confidentiality is unlimited in time, unless otherwise agreed by the parties. Mr. Franco's salary is linked to the CPI, but in case of a decrease in the CPI, the salary will remain unchanged until a rise in the CPI offsets the decrease. Mr. Franco is entitled to vacation pay, sick pay, convalescence pay, an appropriate motor vehicle, social benefits (severance pay, provident fund, further education fund and loss of work ability contributions) as well as other benefits. Upon termination of office, Mr. Franco is entitled to the amounts accumulated in the severance pay and provident funds and also to an adaptation award equal to gross six monthly salaries. (In case of resignation, the said adaptation award will be paid only if the year of resignation is after the end of 2013). Mr. Franco is also entitled to a calculated annual award and to a long-term award according to a scheme approved for the years 2011-2014. Payment of the calculated annual award in respect of a certain year is subject to complying with minimum terms and to attaining a determined target, calculated according to a formula based on the annual yield, as defined in the scheme. The calculated annual award is limited to an amount equal to twelve monthly salaries. In addition, DCM's Board of Directors shall determine, at its exclusive discretion, and on the basis of performance of Mr. Franco in other areas (excluding the return on capital), an additional award equal to two additional salaries, so that the total annual award shall not exceed fourteen monthly salaries. The annual award will be paid in three portions: 60% in the current year, 20% deferred for one year and 20% deferred for two years. Entitlement to the deferred portions is subject to attaining the minimum cumulative average target until the specific target year. In addition to the calculated annual award, Mr. Franco is entitled to a long-term award, which will be calculated depends on attaining cumulative net earning targets of DCM over the period of the scheme, in accordance with the provisions of the scheme. The scheme states that the total awards payable by DCM (not including awards payable by the underwriting company) in respect of any year shall not exceed 10% of the annual earnings according to DCM's financial statements, including the calculation of the awards.

Mr. Igal Ronay, employed by the Bank as Executive Vice President, Head of the Finance Division. Mr. Ronay is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Ronay is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Ronay is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Ronay is entitled to severance payment in accordance with the law and also to a retirement award in an amount equal to four monthly salaries. Mr. Ronay is entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000. The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. The cost of remuneration in respect of all the Directors, excluding the Chairman of the Board, amounted in 2013, to NIS 5,860 thousand (2012 : NIS 5,027 thousand).

REMUNERATION POLICY FOR OFFICERS OF THE BANK

Following Amendment No. 20 of the Companies Act (see "Legislation and Supervision" above), the Bank's Board of Directors has approved a remuneration policy for Officers of the Bank, which was approved in the general meeting of shareholders (see hereunder). 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 former President & CEO (see Note 13 D (1) and Note 22 F, G and I to the financial statements) 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 16 I to the financial statements) 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.

As detailed in immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-066526 and 2014-01-040990) the information included therein is presented here by way of reference, the special meeting of shareholders held on February 17, 2014, decided to approve the remuneration policy for the Bank's officers, in accordance with Section 267A of the Companies Act, 1999 (see also Note 16 L).

TRANSACTIONS WITH CONTROLLING SHAREHOLDERS

NEGLIGIBLE TRANSACTIONS

General - Amendment of the Securities Regulations - Immediate report regarding transactions with controlling shareholders. According to law, the Bank must submit immediate and periodic reports with respect to any exceptional transaction entered into by the Bank. The Companies Law states that an "extraordinary transaction" is "a transaction not in a company's ordinary course of business, a transaction that is not undertaken in market conditions or a transaction that is likely substantially to influence the profitability of a company, its property or liabilities".

According to the Amendment of the Securities Regulations (Periodic and Immediate Reports), 1970, (hereinafter: "the Amendment"), from 2008, the reporting corporation is required , among other things, to submit an immediate report with respect to "details regarding a transaction with the controlling shareholder, or in which the controlling shareholder has a personal interest in its approval, including principal details of the transaction or of the engagement, details of the Organ approving the transaction and a summary of the grounds for its approval; in this Section - "transaction" - excluding a transaction where other transactions of its kind, have been determined as negligible in the most recent financial statements".

The term "negligible transaction" originates in Regulation 64(3) of the Securities Regulations (Preparation of Annual Financial Statements), 1993 (hereinafter: "financial statements regulations") which deals with disclosure in financial statements of transactions of the corporation with an interested party therein. This Regulation determined the extent of the disclosure which is required regarding such transactions, and it also grants an exemption from providing the disclosure where a negligible transaction is involved.

In its reply to the Union of Banks, dated August 6, 2008, regarding the fact that the financial statements regulations do not apply to banks, the Israel Securities Authority informed that it will not interfere in cases where no disclosure will be given in an immediate report to banking transactions that do not constitute extraordinary transactions, as defined in Section 1 to the Companies Law, provided the following are fulfilled:

- The periodic statements shall include a general description of the transactions, their characteristics and the criteria determined for defining the transactions as negligible or as such that are not extraordinary, providing details of the facts, reasons and explanations for such determinations;
- The audit committee of the corporation is to establish criteria for determining a transaction as unusual or negligible;
- Within the framework of describing the engagement with a controlling shareholder as regards office and employment, a general description shall be included as to his financing transactions with the bank (if any) and their characteristics.

Disclosure and reporting outline. The Securities Authority has issued a guideline to the Bank with respect to the disclosure to be included in a Prospectus of the Bank and thereafter in annual financial statements, in the following format:

(a) With respect to banking transactions with controlling shareholders that are not considered extraordinary transactions, the Bank shall report in the Prospectus as well as in periodic reports the balances of credit granted and of deposits made in accordance with the format appearing in the following tables;

(b) The Bank is required to disclose the highest balance during the period of deposits made by controlling shareholders;

(c) The disclosure provided in the credit table should be given separately for the balance of credit granted to a controlling shareholder and the balance of credit granted to relatives of the controlling shareholder (on a cumulative basis). Disclosure as to credit granted to each reporting corporation related to a controlling shareholder shall be provided on a consolidated basis at the level of each such reporting corporation.

Criteria for extraordinary and for negligible transactions. For the purpose of implementing the guideline of the Securities Authority, as stated above, the Bank is required to determine criteria for the definition of a "negligible transaction" - with respect to non-banking transactions, "negligible transaction" - with respect to banking transactions and "market terms", as well as to the manner of approval and disclosure of debt transactions to which Proper Conduct of Banking Business Directive No. 312 does not apply. Accordingly, the Audit Committee of the Board of Directors decided on August 27, 2009, as follows:

"Negligible transaction" - a transaction, other than a banking transaction that complies with the criteria detailed hereunder, is considered a "negligible transaction":

(1) A transaction for the purchase of retail products from a controlling shareholder or a transaction for the purchase of retail products in which the controlling shareholder has a personal interest - a transaction in the ordinary course of business undertaken in market conditions the volume of which does not exceed NIS 2.5 million, provided that the total of the transactions of its kind in any one calendar year shall not exceed 0.1% of the regulatory shareholders' equity as defined in Directive No. 312 of Proper Conduct of Banking Business Directives (hereinafter: "regulatory shareholders' equity"). The said amount shall not apply to individual transactions the volume of each is under NIS 25,000.

(2) A transaction for the purchase of services from a controlling shareholder or a transaction for the purchase of services in which the controlling shareholder has a personal interest, provided that it is not an engagement with a controlling shareholder or his relative concerning the terms of his office and employment, in the ordinary course of business undertaken in market conditions, the volume of which does not exceed NIS 2.5 million, provided that the total of the transactions of its kind in any one calendar year shall not exceed 0.1% of the regulatory shareholders' equity. The said amount shall not apply to individual transactions the volume of each is under NIS 25,000.

(3) Transactions for the rental of space from a controlling shareholder or transactions for the rental of space in which the controlling shareholder has a personal interest, that have been approved in any one calendar year in the ordinary course of business, undertaken in market conditions, the total of which does not exceed 0.1% of the regulatory shareholders' equity.

(4) Reimbursement of expenses of a controlling shareholder in the ordinary course of business and under market conditions, incurred for the purpose of participating in events representing the Bank or in customer conventions of the Bank and its subsidiaries by their invitation - expenses of up to US$100,000 per annum.

(5) Any other transaction in the ordinary course of business undertaken in existing market conditions the volume of which is up to NIS 250,000, provided that the total of transactions of its kind in any one calendar year shall not exceed 0.1% of the regulatory shareholders' equity. The said amount shall not apply to individual transactions the volume of each is under NIS 25,000.

"Extraordinary transaction"

(a) Regarding banking transactions that are debt transactions - a debt transaction shall be considered as material if in consequence thereof the total indebtedness of the controlling shareholders will exceed 5% of the regulatory shareholders' equity, or if the increase in the indebtedness of a single borrower of the group, following such transaction, exceeds 2% of the said equity. In the event that several debt transactions have been approved to the same single borrower during any calendar year, the said debt transactions are to be measured on a cumulative basis. For this purpose, measurement of the total indebtedness shall be made separately in respect of the Bronfman Group (on a cumulative basis), with respect to the Schron Group (on a cumulative basis) and with respect to any other corporation the volume of credit granted to it is not restricted in accordance with Section 5 of Proper Conduct of Banking Business Directive No. 312, at the corporation's level on a consolidated basis, so that the total indebtedness of each of those shall not exceed 5% of the said equity.

"Controlling shareholder group" - a controlling shareholder together with the private companies related to him, within the meaning of the term "related party" as stated in Proper Conduct of Banking Business Directive No. 312 and together with the relatives of the controlling shareholders being members of the group and the private companies related to them. In this respect: the definition of a "controlling shareholder" according to the provisions of the Securities Law includes their next of kin living with them or where the livelihood of one depends on the other; the definition of "relative" according to the Banking Law (Licensing) includes a sibling, a parent, offspring, offspring of the spouse, and the spouse of each of these. Starting with the annual financial statements for 2009, the disclosure provided should be given separately for the balance of credit granted to a controlling shareholder and the balance of credit granted to relatives of the controlling shareholder (on a cumulative basis).

Furthermore, any specific allowance for impaired debts or the writing off of an amount in respect of the indebtedness of a controlling shareholder or of a corporation related to them shall be considered a material transaction.

(b) A transaction representing the acceptance of a deposit - the acceptance of a deposit made by a controlling shareholder shall be considered a material transaction if in consequence thereof the total amount of deposits made by that group of controlling shareholders exceeds 2% of the total deposits at the Discount Bank Group. The acceptance of a deposit from a company considered a "related party" to the controlling shareholder and which is not a company under their control, shall be considered a material transaction if in consequence thereof the total amount of deposits of that company, on a consolidated basis, exceeds 2% of the total deposits at the Discount Bank Group according to the Bank's most recent annual financial statements.

(c) In respect of a transaction in securities or a transaction in foreign currency (which are not a debt transaction or a deposit transaction as described above) - Securities transactions or foreign currency transactions, the annual commission earned in their respect is equal to or exceeds 2% of the total annual operating income of the Discount Group (net of income from investment in shares) according to the Bank's most recent annual financial statements.

A temporary deviation from the volumes specified in subsections (a) to (c) above, and for a period which does not exceed thirty days, shall not constitute cause for changing the classification of the transaction into an "immaterial transaction", and such deviations shall be disclosed in the annual report. It should be clarified that any change in a material transaction is in itself considered a material transaction and an immediate report shall be submitted in its respect.

"Market conditions" - conditions that are not preferable to the conditions according to which transactions similar to the transaction in question are being effected by the Bank with persons or with corporations that do not constitute controlling shareholders of the Bank, or with persons where a controlling shareholder has no personal interest in transactions with them. Market conditions with respect to banking transactions are determined compared to the conditions under which transactions of the same type and similar in volume are being effected, as is the practice when comparing transactions with related parties in accordance with Proper Conduct of Banking Business Directive No. 231 with transactions made with the Bank's customers who are not related parties or with entities in which a controlling shareholder has no personal interest therein; market conditions with respect to transactions that are not banking transactions shall be compared with transactions of the same type entered into by the Bank with suppliers and/or with offers of other suppliers examined prior to the decision regarding the engagement. In cases where the Bank does not have other transactions of the same type, market conditions shall be compared to transactions of the same kind effected on the open market, provided that the transaction is in the ordinary course of business and that transactions of this kind have a ready market where similar transactions are effected.

Debt transactions to which Proper Conduct of Banking Business Directive No. 312 does not apply - in the event that the Bank becomes aware of a debt transaction to which Proper Conduct of Banking Business Directive No. 312 does not apply, the Bank is obliged to bring such transaction for approval in accordance with Proper Conduct of Banking Business Directive No. 312 and to disclose it in its annual report. The definition of "negligible transaction" and "extraordinary transaction" with respect to the said transactions will be similar to the definition determined by the Bank for transactions to which Proper Conduct of Banking Business Directive No. 312 apply.

For details regarding transactions with the controlling shareholders or in which the controlling shareholders have an interest, see Note 22 J and Note 19 C 8 L and M to the financial statements.

Hereunder are summarized data regarding banking transactions considered transactions with controlling shareholders:

	December 31, 2013									
Credit	Balance of credit		Balance of unutilized credit facility		Guarantees granted by the bank to secure credit to a controlling shareholder or to a related party therein		Guarantees granted by a controlling shareholder in favor of a third party		Indebtedness of a controlling shareholder regarding transactions in derivatives [(1)]	
	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year
	in NIS millions									
The Bronfman group	5	41	1	4	-	-	-	-	1.0	3.0
Reporting corporations related to the Bronfman group:	-	-	-	-	-	-	-	-	-	-
Isralom properties Ltd	-	-	-	-	-	-	-	-	-	-
Shufersal Ltd	15	123	32	33	29	30	-	-	-	1.0
Total of reporting corporations	15	123	32	33	29	30	-	-	-	1.0
Total for the Bronfman group	20	164	33	37	29	30	-	-	1.0	4.0
Schron group	5	6	6	6	-	-	-	-	-	-

Deposits	Balance of deposits	
	Balance at end of year	A high balance during the year
Controlling shareholders, including reporting corporations related to the controlling shareholders	91	145

(1) The par value of the said transaction as of December 31,2013, amounted to NIS 3 million, the highest balance during the period amounting to NIS 5 million.

Hereunder are summarized data regarding banking transactions considered transactions with controlling shareholders (continued):

	December 31, 2012									
Credit	Balance of credit		Balance of unutilized credit facility		Guarantees granted by the bank to secure credit to a controlling shareholder or to a related party therein		Guarantees granted by a controlling shareholder in favor of a third party		Indebtedness of a controlling shareholder regarding transactions in derivatives [(1)]	
	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year	Balance at end of year	A high balance during the year
	in NIS millions									
The Bronfman group										
Reporting corporations related to the Bronfman group:	26	59	2	3	-	-	1	4		-
Isralom properties Ltd	-	-	1	1	-	-	-	-		-
Shufersal Ltd	-	1	12	20	19	19	-	-		-
Total of reporting corporations	-	1	13	21	19	19	-	-		-
Total for the Bronfman group	26	60	15	24	19	19	1	4		-
Schron group	6	6	6	6	-	-	-	-		-

Deposits	Balance of deposits	
	Balance at end of year	A high balance during the year
Controlling shareholders, including reporting corporations related to the controlling shareholders	93	160

(1) There was not par value of the said transaction as of December 31,2012, the highest balance during the period amounting to NIS 1 million.

TRANSACTIONS WITH CONTROLLING SHAREHOLDERS AND INTERESTED PARTIES

Approving transactions. On April 25, 2013, a special meeting of shareholders of the Bank approved the renewal of the Officers liability insurance, as detailed in the Immediate Report dated March 20, 2013 and April 25, 2013 (Ref. No. 2013-01-045352 and 2013-01-011791, respectively).

Amendment of the Bank's Articles. For details regarding the amendment of the Bank's Articles in the matter of an indemnification commitment in advance, see below under "Miscellaneous".

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.

An update of the indemnification commitment in advance for Directors and Officers. See hereunder in "Amendment of the Bank's articles" under "Miscellaneous".

**Approval of the terms of office and employment of the Bank`s incoming President & CEO.** A special meeting of shareholders, held on February 17, 2014, resolved to approve the terms of office and employment of the Bank`s incoming President & CEO, as detailed in the immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-006526 and 2014-01-040990, respectively). See also Note 22 F and H to the financial statements.

Amendment of the terms of office and employment of the Chairman of the Board of Directors in the matter of the grossing-up of tax in respect of a motor vehicle. A special meeting of shareholders, held on February 17, 2014, resolved to approve the arrangement whereby the Bank will bear the charge of the grossed-up tax in respect of the cost of use and maintenance of the motor vehicle put at the disposal of the Chairman of the Board as from September 1, 2013, as detailed in the immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-006526 and 2014-01-040990, respectively).
The data detailed in the all the abovementioned immediate reports is presented here by way of reference.

CONTROLS AND PROCEDURES

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.
In order to establish these declarations, the Bank, engaging outside assistance, has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.
Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.
During 2013, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Group.
Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

CHANGES IN INTERNAL CONTROL

During the fourth quarter ended on December 31, 2013, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably expected to materially affect, the Bank's internal control over financial reporting, as detailed below.

MISCELLANEOUS

ENVIRONMENTAL QUALITY

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited, if any at all. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.

Most of the Bank's environmental effects are indirect effects stemming from the use of "administrative" resources, such as: energy, water, paper and such like. These indirect environmental effects do not expose the Bank to environmental risks (within the meaning of the term in the Securities Regulations), which have or might have a material effect upon the Bank.

One of the Bank's targets as regards the environment is to reduce the indirect effect, as stated.

Details regarding the actions taken by the Bank to reduce the said indirect effect, as stated (including: reduced use of paper, recycling of paper and plastic bottles, reducing the use of water, energy and more) are reported in the social responsibility reports issued by the Bank from time to time.

For details regarding environmental risks within their meaning in Directives of the Supervisor of Banks, see "Environmental risks" under "Exposure to risks and risk management" above.

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 of Directors and other Officers of the Bank, including Directors or other Officers as would officiate from time to time (see also Note 19 C (8) (m) and (n) to the financial statements), 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, and 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).

For additional amendments of the Bank's articles, see "Board of Directors and Management", below.

A special meeting of shareholders held on February 17, 2014, resolved to increase the Bank`s authorized share capital by 294.15 million ordinary "A" shares. As stated in the immediate report of February 17, 2014 (Ref. No. 2014-01-041041), the information included therein is presented here by way of reference, the Bank's Memorandum and Articles have been changed accordingly.

For details regarding changes in the Bank`s articles in the matter of the appointment of directors, see below under "the Board of Directors and Management".

BOARD OF DIRECTORS AND MANAGEMENT

GENERAL

A list of the members of the Board of Directors and a list of the Bank's executive officers and their areas of responsibility appear on page 4 of this report. These lists are correct as at the date hereof.

DETAILS REGARDING MEMBERS OF THE BOARD OF DIRECTORS[4]

[4]Notes:

- The details given in this Chapter, constitute also a report regarding the Directors who are considered by the Bank as having accounting and financial expertise for the purpose of compliance with the minimum number determined by the Board of Directors, as described in the item "Report on Directors having accounting and financial expertise", and the factual background in respect of which the Bank considers them as having accounting and financial expertise.
- A director having professional qualifications is one who fulfills one of the conditions stated in Regulation No. 2 to the Companies Regulations (Terms and tests for directors having accounting and financial expertise and directors having professional qualifications), 2005.

Directors name	Dr. Yossi Bachar, Chairman of the Board of Directors	Ilan Biran	Eli Eliezer Gonen	Ilan Cohen
Date on which the term of office as Director began	January 1, 2010 As Chairman of the Board since January 3, 2010	October 29, 2008 Additional term of office - October 29, 2011	November 10, 2010	November 10, 2010 Additional term of office -November 10, 2013
I.D.	53548905	6900997	30029177	55494736
Birth date	August 3, 1955	October 3, 1946	October 5, 1949	September 16, 1958
Address of addressing court of law papers	Tel Aviv, 23 Yehuda Halevi Street	Tel Aviv, 40/14 Shay Agnon Street	Mevaseret-Zion, 16/2 Zamir Street 90805	Tel Aviv, Azrieli Towers, the round tower, 38th floor
Nationality	Israeli	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Chairman of the Computer Committee; Chairman of the Credit Committee; Chairman of the Manpower committee; Chairman of the Coordination Committee; Chairman of the Ad-hoc Committee of the Board regarding locating a President & CEO (August 22, 2013 - October 17, 2013); Strategy Committee	Chairman of the remuneration committee; Audit Committee; Credit Committee; Computer Committee; Risk Management Committee; Coordination committee; Ad-hoc Committee of the Board regarding locating a President & CEO (August 22, 2013 - October 17, 2013)	Manpower committee; Strategy Committee; Corporate Governance Committee; Ad-hoc Committee of the Board regarding locating a President & CEO (August 22, 2013 - October 17, 2013)	Chairman of the Strategy Committee; Computer Committee; Coordination Committee.
External Director as defined in the Companies Act	No	Yes	No	No
Independent Director as defined in the Companies Act	No	Yes	No	No
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	No	Yes	No	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes	Yes
Employee of the Bank, a subsidiary, related company or of an interested	No	No	No	No

party of the Bank				
Education	Academic education Ph.D. in Business Administration (specializing in finance) from University of California, Berkley; Master of Business Administration (specializing in finance), University of California, Berkley; Bachelor of Economics and Accounting, Hebrew University, Jerusalem	Academic education Bachelors in Economics and Business Administration from Bar-Ilan University	Academic education Master of Business Administration from the Hebrew University, Jerusalem; Bachelor of Economics and complementary studies from the Hebrew University, Jerusalem; One year of advanced studies at the University of California, Berkeley, U.S.A.	Academic education Master of business administration (summa cum laude) from INSEAD, Fontainebleau France; Bachelor of economics and management (summa cum laude) from Tel Aviv University
Professional diploma	Israeli Certified Public Accountant	Diploma/strategic studies in strategy and economics from Georgetown University, Washington DC; Honorary Doctorate from the Technion (awarded in 2013)		
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	Chairman of the Board of Directors of Israel Discount Bank Ltd.; Director of Visa Europe (the appointment is for a period between May 1, 2013 and April 30, 2015); CEO and Chairman of the Board of Amiad Av. Ltd.(since July 2007); Chairman of the Board of Yossi Bachar entrepreneurship and investments (previously, Bachar Yossi, Certified Public Accountants) (since June 2002); Chairman of the Board of Directors of Israel Credit Cards Ltd. (March 2012 - June 2013); Director and Deputy Chairman of the Board of Israel Discount Bank of New	Director of Israel Shipyards Ltd. (since October 2013); Director of Itamar Medical Ltd. (since May 2013);Owner and Director of Ilan Biran Nihul Yizum Ltd. (since 2005); Chairman of the Board of Centrition Ltd.(since July 2003); Chairman of the Management Committee, Kinneret College on the Sea of Galilee (R.A.); Chairman of the Board of Rafael Advanced Defense Systems Ltd. (June 2007 - May 2013); Chairman of the Board of Controp Precision Technologies Ltd. (January 2012 - May 2013); Chairman of the	Chairman of the Board of Go Alpha Ltd. a company owned by him (since April 2009); Chairman of the Board of Co-Op Israel – Supermarket Chain Ltd. (as from September 2012); partner, director and joint general manager of Terra Holdings, Management and Investments in Hotels Ltd. (since September 2009); President of the Israel Hotel Association (2000 - December 2010 and since December 18,2013); Director of the Jerusalem Variety Center Association (since 2007); Director of Kenes International	Chairman of the Board of Mikveh Israel Alliance Israelite (since 2010); Director of Hadaka Hatishim Ltd (since 1998); Director of Edmond de Rothschild Investment Services Ltd. ("Edris") (as from June 2012); Director of P.O.C. Investment Company (1999) Ltd.; Director (voluntary) of Masa: The Project for the Encouragement of long term Programs in Israel for Jewish Young Adults Ltd.; Director of P.O.C. Capital Investments Ltd. (since August 1994); Member of the Board of Directors of Or Yarok Association of a

	York (January, 2010 – December 2012); Director of Discount Bancorp Inc. (January, 2010 – December 2012); Chairman of the Board of Directors of Mercantile Discount Bank Ltd. ("MDB") (as Director January 5, 2010 - February, 2012, Chairman January 25, 2010 – February 2012); Chairman of the Executive Board of the Haifa University (October 2007 - January 2011); Chairman of the Strategic Advisory Committee of Klirmark Capital Ltd. (April 2009 - November 2009); Non-executive Chairman of the Board of Stonehage (Israel) Financial Services Ltd. (October 2007 - December 2009)	Board of Sync-RX Ltd. (January 2011 - November 2012, Director November 2010 - November 2012); Venture Partner Consultant, The Challenge Fund - Etgar L.P. (until December 2009)	Organization of Congresses Ltd. (since July 2010); Director of the Jerusalem International Convention Center - Binyaney Haooma Ltd. (since 1998); Chairman of the Board of Ma'ale Hachamisha Hotel (February 2011 – September 2012); Chairman of the Board of the Ghetto Fighters House - Itzhak Katzenelson Holocaust and Jewish Resistance Heritage Museum (July 2008-January 2013); Director of the Hapoel Jerusalem – Management Company Ltd. (up to September 2012); General Manager of the Sheraton-Moriah Hotel Chain in Israel (1999-2009)	Change in Driving Culture in Israel (R.A) (since 2008); CEO of Ilan Cohen Investment and Entrepreneurships Ltd.; CEO of Yield-Investment Advisors Ltd.; member of the Executive Board (voluntary) of the Lin and Ted Arison Israel Conservatory of Music in Tel Aviv (since October 2011); Chairman of the Board of Insuline Medical Ltd. (until January 1, 2014); Director and Deputy Chairman of the Board of Edmond de Rothschild Private Equity Management Ltd. (September 2009 to March 2012); Director of the Alliance Israelite Association (2007 – November 2009)
Additional experience attest to accounting and financial expertise as well as professional qualifications	Director General of the Ministry of Finance (November 2003 - January 2007); Head of the Tax Authority (provisional appointment) (January 2007 - April 2007); Partner and manager of Luboshitz Kasierer Accounting Firm (formerly Arthur Andersen and later Ernst & Young) (April 1995 - November 2003)	Director in Delta Three Israel Ltd. (2004 - November 2008); Chairman of the Board of Beit Shemesh Engines Holdings (1997) Ltd. (2006-2007); Director and Chairman of the Strategic Research and Development Committee of Israel Aircraft Industries Ltd. (2005-2007); Director of Massad Bank Ltd. (2005-2007); Director and member of the Audit Committee and the Finance Committee of Netafim Ltd. (2004-	Director of Tambour Ltd. (2002 - 2007); Director of Crystal Machinery and Electrical Appliances Ltd. (2004 - 2006); Director of Yahav Bank for State Employees Ltd. (1989-1992); Director of Massad Bank Ltd. (1987-1989); Director of Granite Hacarmel Investments Ltd. (during the eighties); General Manager of Koor Tourism Ltd. (1998-1999); General Manager of Histour Altiv (1996-1997); General Manager of the	Director General of the Prime Minister's Office (2004-2006)

		2007); Director General of the Ministry of Defense (1996-1999); Director General of BEZEQ the Israeli Communication Company Ltd. (1999-2003); Chairman of the Board of DBS Satellite Services (1998) Ltd. (2004-2006)	Ministry of Tourism (1992-1996); Held various executive positions at the Hebrew University, Jerusalem, the last of which was Director General of the University (1975-1992)	
"Family member" of another "Interested party" in the corporation	No	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes	Yes

Directors name	David Levinson	Edith Lusky	Jorge Zafran	Ilan (Eilon) Aish
Date on which the term of office as Director began	March 21, 2012	March 25, 2009 Additional term of office - March 25, 2012	January 31, 2006	November 1, 2008 Additional term of office - November 1, 2011
I.D.	7994361	50163567	13815360	54183900
Birth date	February 21, 1964	August 16, 1950	April 23, 1947	December 3, 1956
Address of addressing court of law papers	Ramat Hasharon, 27 Nakhshon Street 47301	Tel Aviv, 6 Kehilat Kovna Street	Herzliah, 16/142 Tsamarot Street 46424	Ramat Gan, 5 Hahilazon Street
Nationality	Israeli	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Credit Committee; Risk Management Committee	Chairperson of the Audit Committee; Manpower Committee; Remuneration Committee; Corporate Governance Committee; Risk Management Committee; Coordination Committee; Ad-hoc Committee of the Board regarding locating a President & CEO (August 22, 2013 - October 17, 2013)	Chairman of the Corporate Governance Committee; Audit Committee; Risk Management Committee; Coordination Committee	Chairman of the Risk management Committee; Audit Committee; Corporate Governance Committee; Credit Committee; Strategy Committee; Coordination Committee; Manpower Committee
External Director as defined in the Companies Act	No	Yes	No	No
Independent Director as defined in the Companies Act	Yes	Yes	No	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	Yes	Yes	No	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Has professional qualifications	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No	No

Education	Academic education Bachelor of economics and statistics from the Hebrew University, Jerusalem; Master of business administration from the Tel Aviv University	Academic education Bachelor of Economics and Statistics (summa cum laude) from Tel Aviv University; Master of Economics from Tel Aviv University	Academic education Master of Business Administration and Accounting (CPA, The National University of Buenos Aires, Argentina, Faculty of Economic Science); profession / specialty: accounting and business administration in the marketing track	Academic education Bachelor of Economics and Accounting from Tel Aviv University
Professional diploma				Israeli Certified Public Accountant
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	External Director of Gav-Yam Ltd. (since Mat 2006); External Director of Excellence-Nessuah Brokerage Services Ltd. (2010 to February 2013); Director of Otzar Hachayal Bank Ltd. (2006-March 21, 2012); external director of Direct Investments House (Mutual Trust Funds) (December 2006 - June 2010); Financial and business consultant to corporations and Private Equity funds (2006-August 2011); Consultant to the "Hamashbir Latzarchan" Group (2006-October 2011)	Director of Cellcom Israel Ltd. (since March, 2011); Director of Netvision Ltd. (July 2011-December 2011)	Director and CEO of Power Phone Marketing Ltd.; Joint Managing Director and CEO of T.M. Intertrom Ltd.; Director and CEO of Power Dialing Ltd.; Director and CEO of Inter American Marketing Services Ltd.; Director and CEO of Cadillac Properties and Building Company Ltd.; Director and CEO of Israel Learning Systems Ltd.	Joint Owner, Director and CEO of Harvest Capital Markets Ltd. (since January 2003); Director of Harisha Tuff Lanka Private (Limited) (April 2007 - December 2009)
Additional experience attest to accounting and financial expertise as well as professional qualifications	General Manager of FIBI Bank (UK) plc. (2002-2006); General Manager of Maritime Bank of Israel Ltd. (1996-2002); General Manager of Granit Hacarmel Holdings Ltd. (1994-1996); Has fulfilled different roles at Bank Hapoalim and/or on its behalf (1974-	senior executive vice president and member of management of Union Bank of Israel Ltd. which areas of responsibility were: Head of the retail, customer assets and advisory services department, Head of the retails banking and risk management		Chairman of the Board of Tuff Merom Golan (2000) Ltd. (April 2002 - December 2008); Chairman General Partner of Tuff L.P. (April 2002 - December 2008); External Director and Chairman of the Investments Committee of the Provident Fund of

	1994), including Senior Assistant to the CEO in charge of the overseas operations of Bank Hapoalim, CEO of Israel Continental Bank, in charge of all credit departments at Head Office, manager of the Head Office foreign currency department and manager of the London City Branch; Banker at the Corporate Finance department of Japhet Charterhouse (a London investment bank) (1972-1974); Economist at the Industrialization of Development Areas Company (1970-1972)	department and in addition in charge of marketing, advertising and mortgages (February 2004 - December 2008); Director of Igud Leasing Ltd. (March 2007 - December 2008); Director of Igudim Insurance Agency (1995) Ltd. (September 2005 - December 2008); Director of Igudim Ltd. (September 2005 -December 2008); Director of Livluv Insurance Agency (1993) Ltd. (February 2004 - December 2008); President & CEO of Mishcan Bank, a subsidiary of Bank Hapoalim Ltd. (2001-2004); Manager of the direct banking wing at Bank Hapoalim Ltd. in which her responsibilities were: establishment and marketing the Bank's internet sites, establishment and management of "Poalim Direct" - the bank's telephone centers, responsibility for selfservice machines and automatic branches (November 1995 - March 2001)		IBM Israel Employees Ltd. (December 2003 - September 2007); External Director and Chairman of the Risk Management Committee of MDB (November 2000 - October 2006); Partner in the accounting firm of Yigal Brightman & Co. (1984-1992); Partner in the accounting firm of Vulcan, Weinberg, Aish & Co. (1993-2000); Consulting partner in the accounting firm of Goldstein, Sabu, Tevet (2001-2004)
"Family member" of another "Interested party" in the corporation	No	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	No	Yes

REPORT ON DIRECTORS HAVING ACCOUNTING AND FINANCIAL EXPERTISE

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. Accordingly, the Bank's Board of Directors has determined that three is the minimum number of its Directors having accounting and financial expertise, and that the minimum number of Directors having accounting and financial expertise in the Audit Committee of the Board is one.

Subsequent to the dates of the said resolutions of the Board of Directors, Directive No. 301 of Proper Conduct of Banking Business Directives has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly.

At date of reporting, the number of Directors having accounting and financial expertise is nine and the number of Directors having accounting and financial expertise who are members of the audit committee of the Board is four (out of six).

Details of Directors having accounting and financial expertise and the factual background on the basis of which they may be considered as having such expertise, are included above under "Details regarding members of the Board of Directors".

AMENDMENT OF THE BANK'S ARTICLES - INSTRUCTIONS REGARDING THE APPOINTMENT OF DIRECTORS

A special general meeting of the shareholders held on November 28, 2012, resolved to approve an amendment of the Bank's articles, in accordance with a marked draft appended as Annex No.1 to the immediate report filed by the Bank on October 23, 2012, with respect to the convening of the meeting (Ref. No. 2012-01-262488) and this as detailed in an immediate report regarding the change in the Memorandum and/or Bylaws published by the Bank on November 28, 2012 (Ref. No. 2012-01-293355). The data detailed in the abovementioned reports is presented here by way of reference.

The background for the amendment is the entry into effect, in March 2012, of the Banking Act (Legislation amendments), 2012 ("the Amendment"), which, among other things, included directives regarding the appointment, office and termination of office of directors of a banking corporation, which is a public corporation, as well as instructions regarding the proposal of candidates for the office of director, appointment, office and termination of office of director of a banking corporation that has no core controlling interest, as defined in Section 11B(c) of the Banking Ordinance, 1941.

In view of the Amendment and following guidelines of the Supervisor of Banks, the Bank is required to examine the Articles of the Bank and, if necessary, modify them in accordance with the Amendment, and so it was done. Most of the changes approved and effected in the articles stemmed from the said amendment are those stemming from the said Amendment and also from the enactment of the Capital Market Enforcement Intensification Act (Legislation amendments), 2011, and the Antitrust Act (Amendment No. 13), 2012, which added administrative enforcement proceedings.

Following the Bank turning into a bank having no core controlling interest, the Supervisor of Banks approached the Bank in the matter of amending the Bank`s articles. According to the Bank`s articles, the period of office of a Director, who is not an external Director, terminates on the date of the next general meeting of shareholders. In the circumstances of the Bank being a bank having no core controlling interest, frequent changes of members of the Board of Directors might impair the effectiveness of its performance, and due to the complexity of the operations of a banking corporation, the Supervisor of Banks is of the opinion that there is room for consideration that the term of office of a Director, who is not an external Director, should be three years.

For additional amendments of the Bank's articles, see "Miscellaneous" above.

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.

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.

CHANGES IN THE BOARD OF DIRECTORS

The term of office as Director of the Bank of Mr. Joseph Ciechanover Itzhar ended on January 31, 2014, as detailed in the immediate report of January 2, 2014 (Ref No. 2014-01-002929). The information stated in the immediate report mentioned in this item is presented herewith by way of reference.

The Chairman of the Board and the Board of Directors thank Mr. Ciechanover Itzhar for his work and contribution to the Bank during his term of office.

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. Mr. Spiegel ended his term of office on February 19, 2014. Everything as detailed in immediate reports dated August 21, 2013 (Ref No. 2013-01-123042) and February 19, 2014 (Ref No. 2014-01-42298).

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, everything as detailed in the immediate report of October 17, 2013 (Ref. No. 2013-01-168351).
Ms. Asher Topilsky commenced in office as the Bank`s President & CEO on February 19, 2014.
The information included in the said immediate reports, is presented here by way of reference.
The Chairman and members of the Board of Directors and Management thank Mr. Spiegel for his work and contribution during his term of office at the Bank and at the Group`s companies, and wish success to Ms. Asher Topilsky.

CHANGES IN MANAGEMENT

Mr. Gilad Sokolov, Executive Vice President, ended on January 1, 2014, his term of office as the Bank`s head of the Strategy, Marketing and Service Division, as detailed in the immediate reports of July 18, 2013 and January 2, 2014 (Ref Nos. 2013-01-095571 and 2014-01-001972, respectively).
On April 13, 2014, Mr. Shlomo Avidan, Executive Vice President, is expected to end his term of office as head of the Bank`s Operations and Logistics Division, as detailed in the immediate report of January 6, 2014 (Ref. No. 2014-01-005392).
The Board of Directors, in a meeting held on March 3, 2014, resolved to approve the appointment of Ms. Yafit Gariani as member of Management, with the title of Executive Vice President, and as Head of the Operations and Logistics Division. Ms. Gariani is expected to begin her office on April 13, 2014. All as detailed in the immediate report of March 4, 2014 (Ref. No. 2014-01-004530).
The detailed information provided in the immediate reports mentioned in this item, is included herewith by way of reference.
The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Sokolov and Mr. Avidan for their work and contribution during their term of office at the Bank.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In 2013, the Board of Directors held 35 meetings. In addition, 114 meetings of committees of the Board of Directors were held.
The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank’s employees and employees of the Group’s companies and their management for their work towards the advancement of the Bank and the Group.

March 19, 2014	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky 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:

	December 31, 2013			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	720	745	34	9
Financial services(1)	10,362	10,100	91	353
Total non government bonds	**11,082**	**10,845**	**125**	**362**
Government bonds				
U.S. government	174	160	-	14
Israel Government	19,516	19,932	416	-
Other Governments	168	171	3	-
Total government bonds	**19,858**	**20,263**	**419**	**14**
Total bond in the available-for-sale portfolio	**30,940**	**31,108**	**544**	**376**

	December 31, 2012			
Total non governmental bonds	**13,862**	**13,829**	**214**	**247**
Total government bonds	**20,938**	**21,527**	**597**	**8**
Total available-for-sale bonds	**34,800**	**35,356**	**811**	**255**

*There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 339 million.
(1) see next page.

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

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

	December 31, 2013			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	3,282	3,187	58	153
Insurance and provident funds	106	111	5	-
Ginnie Mae*	1,547	1,503	4	48
Freddie Mac*	1,561	1,531	7	37
Fannie Mae*	3,772	3,670	13	115
Other**	94	98	4	-
Total financial services	**10,362**	**10,100**	**91**	**353**

*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 30 million.

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

North America(3)	1,410	1,280	18	148
Western Europe(4)	1,212	1,232	25	5
Israel	479	489	10	-
Australia	181	186	5	-
Total banks and banking holding companies	**3,282**	**3,187**	**58**	**153**

(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	29	31	2	-
A+ to A-	217	202	1	16
BBB+ to BBB-	891	819	10	82
BB+ to B-	233	188	-	45
Not rated	40	40	5	5
Total	**1,410**	**1,280**	**18**	**148**

(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	486	497	15	4
Switzerland	195	197	2	-
France	227	229	3	1
Netherlands	159	162	3	-
Other*	145	147	2	-
Total	**1,212**	**1,232**	**25**	**5**

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

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

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

	December 31, 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	*1,883	1,879	61	65
Financial services(1)	1,536	1,512	26	50
Total non government bonds	**3,436**	**3,408**	**87**	**115**
Total Government bonds	**3,738**	**4,016**	**278**	**-**
Total held-to-maturity bonds	**7,174**	**7,424**	**365**	**115**
	December 31, 2012			
Total non governmental bonds	**3,708**	**3,894**	**192**	**6**
Total government bonds	**3,280**	**3,542**	**262**	**-**
Total held-to-maturity bonds	**6,988**	**7,436**	**454**	**6**

(1) Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae**	507	503	10	14
Freddie Mac**	491	478	2	15
Fannie Mae**	255	244	-	11
Other Government Agencies**	88	82	-	6
Other***	195	205	14	4
Total financial services	**1,536**	**1,512**	**26**	**50**

*Most of 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 202-206 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 91 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:

	December 31, 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]	94	94	1	1
Financial services	63	61	-	2
Total non government bonds	**157**	**155**	**1**	**3**
Total government bonds	**2,024**	**2,023**	**2**	**3**
Total bonds in the trading portfolio	**2,181**	**2,178**	**3**	**6**
	December 31, 2012			
Total non governmental bonds	**143**	**125**	**1**	**19**
Total government bonds	**2,820**	**2,826**	**6**	**-**
Total trading bonds in the trading portfolio	**2,963**	**2,951**	**7**	**19**

(1) In the said group the fair value of investments in its related bonds exceeds NIS 61 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 64 million as of December 31, 2013, compared with NIS 69 million as of December 31, 2012, a decrease of 7%. The bonds are classified to the "held to maturity" portfolio, except for one bond that is classified to the "available-for-sale" portfolio. These securities are classified to the financial services sector. The collateral pertaining to these securities is all located in the United States.
As of December 31, 2013, there is no provision for impairment of value due to the said securities.
The securitization exposure included in the following table does not include mortgage backed securities of the U.S. government agencies GNMA, FNMA and FHLMC, due to the fact that all layers of the said securities reflect identical credit risk.

Following are details regarding CMBS Exposure:

	As at December 31,2013			As at December 31,2012		
Maturity Date	Amortized cost	Fair Value	Book Value	Amortized cost	Fair Value	Book Value
	in NIS millions					
2039-2040	8	10	8	9	11	9
2045-2047	5	5	5	5	6	5
2049-2051	51	57	51	55	64	55
Total	**64**	**72**	**64**	**69**	**81**	**69**

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

Presented below are details as of December 31, 2013 and December 31, 2012, of certain bonds with unrealized losses, which are considered temporary, held by IDB New York in their available for sale portfolio, with a ratio of unrealized loss to amortized cost in excess of 20%, during a period which exceeds 12 months:

					Securities Ratings		
	Amortized Cost	Fair Value	Unrealized Loss	Final Maturity	Moody's	S&P	Fitch
Issuer's / Group's Name	in NIS thousands						
	December 31, 2013						
Securities with ratio of unrealized loss from 20% to 40%							
Bank of America	104,120	82,263	(21,857)	2027	Ba1	BB+	BB+
J.P. Morgan Chase	52,200	38,528	(13,672)	2037	Baa2	BBB	BBB
Suntrust Bank	52,062	41,652	(10,410)	2028	Baa3	BB+	BB
New York Environmental Facilities Corp	6,876	5,453	(1,423)	2032	Aaa	AAA	AAA
Total securities with ratio of unrealized loss from 20% to 40%	**215,258**	**167,896**	**(47,362)**				
	December 31, 2012						
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.

As of December 31, 2013, 97% of the unrealized loss detailed in the above table relate to Trust Preferred Securities (hereinafter: "TRUPS"), issued by financial institutions. Unrealized loss in the amount of NIS 22 million is in respect of securities rated below investment grade by one or more rating agencies.

TRUPS Characteristics:

- Background - Formal guidelines for the issuance of TRUPS were published by the Federal Reserve Board in 1996, which allowed Bank Holding Companies ("BHCs") to raise capital cost-efficiently through the issuance of TRUPS. While TRUPS are treated as debt securities for U.S. financial statement and income tax purposes, the FRB ruled that a BHC's TRUPS can be treated as part of the company's regulatory tier 1 capital (up to a limit of 25%) if it meets certain criteria as described under structure below.

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

- Issue structure - TRUPS are limited-life, cumulative preferred stocks, for the most part issued with contractual maturities up to 35 years. Although TRUPS may be issued by corporations and bank holding companies, when issued by a bank holding company and adhering to certain criteria, TRUPS may be treated as regulatory capital rather than debt. It is for this reason that the vast majority of TRUP issuances have been by banks. Dividend payments on the TRUPS are more like interest payments, since the issuer usually pays them quarterly or semi-annually and as previously noted are tax-deductible as interest for the issuers. For a BHC, the revenue source for the servicing of its TRUPS obligations are dividends upstreamed from its bank subsidiary (ies), as the primary asset of the typical BHC is the equity ownership in its bank subsidiary (ies).

In order to qualify as regulatory capital the debt must meet specific criteria.

IDB New York reviews its Available for sale and Held to maturity investment securities quarterly to determine whether an impairment that is considered to be other than temporary (OTTI) has occurred. If a decline in fair value is judged by the Company to be other than temporary, and if there are significant credit concerns regarding a particular security and it is expected that the Company will not recover its amortized cost, the security is written down from its original cost basis to reflect the adjusted fair value and a new cost basis is established. IDB New York's assessment also addresses the impact of the length of time an investment has been in an unrealized loss position. In general, the longer the length of time that a security has been in an unrealized loss position and the greater the magnitude of the unrealized loss, the more likely it is that the security is OTTI. Factors that management considers in its reviews for OTTI are the financial condition and near-term prospects of the issuer, recent events specific to the issuer or the issuer’s industry, adverse or positive changes in fair value and ratings announced by one or more rating agencies, trends and volatility in earnings, whether the issuer of the debt security has remained current on principal and interest payments, whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market conditions, and current analyst evaluations and other key measures, and if relevant, cash flow models based on the specific structure of the security to determine if there are adverse changes in cash flows.

IDB New York has the ability and intent to hold securities with unrealized losses until a market price recovery (which for debt securities may not be until maturity) and currently intends to hold all temporarily impaired securities to full recovery. Future reviews for OTTI will consider the particular facts and circumstances during the respective reporting period. There remain significant market and economic uncertainties that could result in further declines in the fair value of securities in our portfolio in the future. There continues to be considerable challenges facing the U.S. and global economies and a prolonged economic downturn could have implications and impact any recovery in security valuations. In spite of numerous market interventions and programs implemented by U.S. and global governments and regulators there continues to be a lack of liquidity and capital market flows to facilitate an improvement in many securities markets. Therefore, there is still a risk that there may be additional other than temporary impairment writedowns in the future.

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.

As of December 31, 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.

In the end of 2011, in light of the Bank of Israel's guideline, a provision for impairment was recorded in the consolidated financial statements, in respect of securities of two issuers which incurred unrealized losses of more than 40%, over a period of several consecutive quarters.

A study of the volatility in prices of the securities presented above subsequent to balance sheet date (and up to February 28, 2014), indicates no significant changes compared to market prices at December 31, 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 of December 31, 2013.

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

Bank of America (BOA). BOA reported a net profit of US$3.4 billion for the fourth quarter 2013, compared with US$2.5 billion in the third quarter 2013 and US$732 million in the corresponding quarter last year. Expenses for credit losses in the fourth quarter of 2013 amounted to US$336 million, compared to US$290 million in the previous quarter and US$2.2 billion in the corresponding quarter last year. Earnings per share stood at US$0.29, compared to US$0.2 earnings per share in the previous quarter. Total assets amounted to US$2.1 trillion, similar to the previous quarter.

Non-performing loans at the fourth quarter 2013 were 4.6% of gross loans, compared to 5.2% in the previous quarter. The ratio of the allowance for credit losses to total non-performing loans at the end of the fourth quarter of 2013 was 39.0%, compared to 38.6% at the end of the previous quarter.

BOA is a well-capitalized institution, with a Total Capital ratio of 15.44% at December 31, 2013, compared with 15.36% at September 30, 2013.

JP Morgan Chase (JPM). JPM reported a net profit of US$5.3 billion for the fourth quarter 2013, compared with a loss in an amount of US$380 million in the third quarter 2013 and a net profit of US$5.6 billion in the corresponding quarter last year.

The growth in income was mostly the result of a decrease of US$8.1 million in operating and other expenses, following a provision of US$9.2 billion, made by JPM in the previous quarter for legal and regulatory proceedings regarding the "London Whale" affair and regarding additional investigations conducted against the Bank, particularly in the mortgages field.

Expenses for credit losses in the fourth quarter of 2013, amounted to US$104 million compared to reducing expenses for credit losses in an amount of US$543 million in the previous quarter and an expense of US$656 million in the corresponding quarter last year. Earnings per share amounted to US$1.3 compared with a loss per share of US$0.17 in the previous quarter. Total assets amounted to US$2.41 trillion, compared to US$2.46 trillion in the previous quarter. Non-performing loans at the fourth quarter 2013 were 3.1% of gross loans, compared to 3.3% in the previous quarter. The ratio of the allowance for credit losses to total non-performing loans was 68.6% at the end of the fourth quarter of 2013, compared to 69.3% at the end of the previous quarter.

JPM is a well-capitalized institution, with a Total Capital ratio of 14.3% at December 31, 2013, similar to the ratio at September 30, 2013.

Sun Trust Banks (STI). STI reported a net profit of US$413 million for the fourth quarter 2013, compared with US$179 million in the third quarter of 2013 and US$350 million in the corresponding quarter last year. Expenses for credit losses amounted in the fourth quarter of 2013 to US$101 million compared to US$95 million in the previous quarter. Earnings per share amounted to US$0.77, compared with US$0.33 per share in the previous quarter. Total assets amounted to US$175.3 billion, compared to US$171.8 billion in the previous quarter.

Non-performing loans at the fourth quarter 2013 were 1.7% of gross loans, similar to the previous quarter. The ratio of the allowance for credit losses to total non-performing loans at the end of the fourth quarter of 2013 was 92.2%, compared to 91.6% at the end of the previous quarter.

STI is a well-capitalized institution, with a Total Capital ratio of 12.8% at December 31, 2013, compared to 13.04% as of September 31, 2013.

PART "B": 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 in the annual report is included. The required information as above is reflected in the following table.

Table No.	Topic	Location*	Page No. in this Report
Table 1	Scope of implementation	Basel II - The implementation in Israel of the Basel committee recommendations	135-138
Table 2a	Capital structure - qualitative disclosure	Note 14 to the financial statements	426-436
Table 2b,c,e	Capital structure - quantitative disclosure	Capital resources - The Bank's capital adequacy Note 14(1),14(4) to the financial statements	426, 428
Table 3a	Capital adequacy - qualitative disclosure	Capital resources - The Bank's capital adequacy	33-36
Table 3b,d,e,f,g	Capital adequacy - quantitative disclosure	Capital resources - The Bank's capital adequacy Note 14(3) to the financial statements	427
Section 824	General qualitative disclosure	Risk management policy and objectives, The structure and organization of the risk management function - factors involved in risk management	125-140
Table 4a	Credit risk - qualitative disclosure	Credit risk management	141-158
Table 4b	Credit risk - segmentation of credit risk according to the main credit exposure types	Credit risk management - Quantitative disclosure regarding credit risk	150
Table 4c	Credit risk - main geographic distribution of exposures	Management review - Schedule "F"	320-323
Table 4d	Credit risk - Counterparty type distribution of exposures	Credit risk management - Quantitative disclosure regarding credit risk Internet document – part "C"	
Table 4e	Credit risk - Residual contractual maturity breakdown of the whole portfolio	Credit risk management - Quantitative disclosure regarding credit risk Internet document – part "C"	
Table 4f	Credit risk - problematic debts	Management review - Schedule "E"	318-319
Table 4g	Credit risk - problematic debts classified according to main geographical areas	Management review - Schedule "F"	320-323
Table 4h	Credit risk - movement in the balance of allowance for credit losses	Note 4a to the financial statements	386-389
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 Internet document – part "C"	
Table 7	Credit risk mitigation	Credit risk management - Reduction of credit risk Internet document – part "C"	
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 Internet document – part "C"	150-152
Table 9	Securitization exposure	Credit risk management – Securitization Internet document – part "C"	152-153

PART "B": 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 this Report
Table 10	Market risk	Management of market and liquidity risks	158-170
Table 12	Operational risks	Operational risks	172-176
Table 13	Share positions in the bank's portfolio	Internet document – part "C"	
Table 14	Interest rate risk in the banking book	Management of market and liquidity risks	158-170

* 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

Credit risk involved in 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 "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 20 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

(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 December 31, 2013	As of December 31, 2012*
	In NIS million	
Balances of assets deriving from derivative instruments where the counterparties are foreign banks		
With an AAA rating	-	1
With an AA- rating	446	346
With an A+ rating	36	59
With an A rating	921	876
With an A- rating	182	550
With a BBB+ rating	160	2
With a BBB rating	1	34
Not rated	18	14
Total against foreign banks	**1,764**	**1,882**
Total against Israeli banks	**1,093**	**1,283**
Total balances of assets deriving from transactions in derivative instruments	**2,857**	**3,165**

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(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 December 31, 2013	As of December 31, 2012*
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments where the counterparties are foreign banks		
With an AAA rating	-	1
With an AA- rating	105	56
With an A+ rating	6	6
With an A rating	134	120
With an A- rating	15	57
With an BBB+ rating	19	9
With an BBB rating	3	1
Not rated	1	1
Total against foreign banks	**283**	**251**
Total against Israeli banks	**50**	**58**
Total Off balances of assets deriving from transactions in derivative instruments	**333**	**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 D 8.

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Following are details of the column "Other" in Note 20 B to the financial statements according to the overall credit to the public risk per economic sectors:

	As of December 31, 2013		As of December 31, 2012	
	in NIS million			
Agriculture		2		3
Industry:				
Machines, electrical and electronic equipment	18		53	
Mining, chemical industry and oil products	101		122	
Other	38		37	
Total industry		157		212
Construction and real estate:				
Acquisition of real estate for construction	55		72	
Real estate holdings	39		92	
Other	11		16	
Total Construction and real estate		105		180
Electricity and water		417		211
Commerce		67		71
Hotels, hotel services and food		1		-
Transportation and storage		53		39
Communications and computer services		10		7
Financial services:				
Financial institution (excluding banks)	263		(1)271	
Private customers active on the capital market	405		132	
Financial holding institutions	183		50	
Insurance and provident fund services	185		61	
Total financial services		1,036		514
Business and other services		77		96
Public and community services		3		10
Private individuals - housing loans		-		-
Private individuals - other		27		(1)26
Total		**1,955**		**1,369**
Credit risk mitigation in respect of financial instruments		(444)		(149)
Total credit risk in respect of derivative instruments		**1,511**		**1,220**

Footnote:

(1) Reclassified - improving classification in different sectors.

2. CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Following are data regarding credit risk pertaining to leveraged finance. Disclosure is focused on exposure in respect of the acquisition of means of control, each of which exceeds NIS 50 million.

The Bank's exposure to leveraged finance according to economic sector of the acquired corporation:

	Balance sheet credit as of	
	December 31, 2013	December 31, 2012[1]
Sector	In NIS millions	
Industry	1,175	1,051
Construction and real estate	1,364	[2]1,965
Electricity and water	26	131
Commerce	510	526
Transportation and storage	194	178
Communications and computer services	134	153
Financial services	525	725
Total	**3,928**	**4,729**

(1) Reclassification due to extension of the definition of leveraged finance.
(2) 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 December 31, 2013 amounted to NIS 3,928 million, compared to NIS 4,729 million at the end of 2012, a decrease of 16.9%. 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 December 31, 2013, amounted to NIS 541 million (December 31, 2012 – NIS 433 million).

3. CREDIT LEVELS IN EXCESS OF NIS 800 MILLION - ADDITIONAL DETAILS

Note 4 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

Following are general details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[1] (Consolidated):

	As at December 31	
	2013	2012
	in NIS thousands	
Field of activity:		
Public and Community Services[2]	3,944,944	3,922,000
Electricity and water	3,116,267	1,770,980
Public and Community Services[2]	2,037,272	2,425,000
Public and Community Services[2]	2,026,158	4,403,000
Financial services	1,232,928	1,146,172
Real estate	1,208,772	1,072,586
chemicals industry	2,441,700	-
Communications and computer services	436,095	822,653

Footnotes:
(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before provision for credit losses.
(2) One of- 3 borrowers in the two upper levels in 2012.
(3) Including mortgage backed securities issued by GNMA, FNMA and FHLMC.

4. THE MAIN DIFFERENCES BETWEEN THE MANAGERIAL REPORTING FORMAT AND THE PUBLIC REPORTING FORMAT

The segment reporting presented in the financial statements and in the Directors' report have been prepared in accordance with the instructions and guidelines of the Supervisor of Banks in this matter. Certain differences exist between the managerial reports presented to the Bank's Management and the segment data and format presented in the financial statements.

The reports to the Bank's Management include, at this stage, a report of the Corporate Division's data and the Banking Division's data at the Bank level, up to the "earnings before tax" line. The Banking Division's data include the household segment customers, the small business segment and the middle market banking segment. The data for the Corporate Division include the corporate banking segment and the data for the Customer Assets Division include the private banking segment.

As stated, there are several principal differences between the reports to Management and the segment reporting in the financial statements:

- The report to Management does not address the allocation of profits from the severance pay fund as is the case in segment reporting according to the public reporting instructions;
- The financial activity segment includes both the activity of the Bank's "Nostro" management and risk management, which is subject to the responsibility of the Finance Division, as well as the investments in non-financial companies, which is not managed by that Division, and as stated, the activity of this segment is not presented in the said reports to Management;
- In the segment reporting according to the instructions of the Supervisor of Banks, Tier 1 and Tier 2 capital are allocated to each segment in accordance with each segment's risk assets, at the expense of the financial segment.

4. THE MAIN DIFFERENCES BETWEEN THE MANAGERIAL REPORTING FORMAT AND THE PUBLIC REPORTING FORMAT (CONTINUED)

Following is the quantification of the main differences between the formats of managerial reporting and the reporting format dictated by the public reporting instructions:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial Management	Total Consolidated
	in NIS millions						
	For the year ended December 31,2013						
Reported net income (loss)	(20)	202	278	170	(13)	257	874
Net income (loss) for Management reports	(67)	187	261	162	(16)	347	874
Difference	**47**	**15**	**17**	**8**	**3**	**(90)**	**-**
Following is the composition of the differences:							
Income (loss) from Interest income, net before credit loss expenses	4	6	4	6		(20)	-
Profit from severance pay funds	69	18	22	8	5	(122)	-
Total income that was transferred	73	24	26	13	5	(141)	-
Provision for taxes (tax savings)	26	9	9	5	2	(51)	-
Difference	**47**	**15**	**17**	**8**	**3**	**(90)**	**-**
	For the year ended December 31,2012						
Reported net income (loss)	224	263	245	174	23	(127)	802
Net income (loss) for Management reports	170	244	214	160	20	(6)	802
Difference	**54**	**19**	**31**	**14**	**4**	**(121)**	**-**
Following is the composition of the differences:							
Income (loss) from Interest income, net before credit loss expenses	9	10	24	12	1	(57)	-
Profit from severance pay funds	74	19	24	8	5	(130)	-
Total Income that was transferred	83	29	48	21	6	(186)	-
Provision for taxes (tax savings)	29	10	17	7	2	(65)	-
Difference	**54**	**19**	**31**	**14**	**4**	**(121)**	**-**

5. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 3 to the 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 divided by governments with respect to the total securities portfolio:

	December 31, 2013		December 31, 2012	
	Book value	Fair value(1)	Book value	Fair value(1)
	In NIS millions			
Of the Israeli Government	25,689	25,967	26,682	26,941
U.S. government	159	159	336	336
Other governments	176	(2)176	615	(2)618
Total	**26,024**	**26,302**	**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 governments, there is not one government the investment in bonds and loans and thereof exceeds NIS 51 million as of December 31, 2013 (NIS 374 million as of December 31, 2012).

MANAGEMENT REVIEW

307	Schedule "A" – Consolidated Balance Sheet – Multi-Period Data
309	Schedule "B" – Consolidated Statement of Income – Multi-period Data
310	Schedule "C" – Rates of Financial Income and Expenses – Consolidated
314	Schedule "D" – Exposure to Changes in Interest Rates – Consolidated
318	Schedule "E" – Credit risk classified by Economic Sectors on a Consolidated Basis
320	Schedule "F" – Exposure to foreign countries – Consolidated
324	Schedule "G" – Condensed Consolidated Balance Sheet – Multi-Quarter Data
326	Schedule "H" – Consolidated Statement of Income for each quarter – Multi-Quarter Data
328	President & CEO's certification
329	Chief Accountant's certification
330	Report of the Directors and Management on Internal Control over Financial Reporting

CHEDULE "A" - CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA

	As at December 31				
	2013	2012	2011	2010	2009
	In NIS millions				
Assets					
Cash and deposits with banks	25,319	24,100	30,329	18,187	24,583
Securities	41,325	46,001	42,898	37,176	36,338
Securities borrowed or purchased under resale agreements	102	387	145	45	336
Credit to the public	117,993	119,696	118,358	124,902	120,820
Provision for credit loss	(2,134)	(2,085)	(1,975)	(6,236)	(6,394)
Credit to the public, net	115,859	117,611	116,383	118,666	114,426
Credit to Governments	1,835	1,696	1,640	1,556	1,820
Investments in affiliated companies	1,668	1,724	1,591	1,660	1,785
Buildings and equipment	2,696	2,962	3,080	3,125	3,178
Intangible assets and goodwill	142	142	152	163	211
Assets in respect of derivative instruments	4,080	(1)3,727	3,114	2,039	1,836
Other assets	3,277	2,662	3,132	2,937	3,042
Noncurrent assets held for sale	4,204	-	8	13	-
Total Assets	**200,507**	**201,012**	**202,472**	**185,567**	**187,555**

Footnote:
(1) Reclassified, see note 1 D 8.

CHEDULE "A" - CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA (CONTINUED)

	As at December 31				
	2013	2012	2011	2010	2009
	In NIS millions				
Liabilities and Equity					
Deposits from the public	148,928	151,935	153,368	138,011	141,825
Deposits from banks	4,213	3,720	4,249	3,387	3,724
Deposits from the Government	972	1,005	925	461	284
Securities loaned or sold under buy-back arrangements	3,644	5,452	6,700	7,227	7,651
Subordinated capital notes	11,664	12,284	12,239	12,294	11,529
Liabilities in respect of derivative instruments	4,898	(1)4,708	4,432	3,215	2,489
Other liabilities	9,719	9,774	9,538	9,829	10,158
Liabilities held for sale	3,931	-	-	-	-
Total liabilities	187,969	188,878	191,451	174,424	177,660
Equity capital attributed to the Bank's shareholders	12,233	11,838	10,702	10,815	9,597
Non-controlling rights in consolidated companies	305	296	319	328	298
Total equity	12,538	12,134	11,021	11,143	9,895
Total Liabilities and Equity	**200,507**	**201,012**	**202,472**	**185,567**	**187,555**

Footnote:

(1) Reclassified, see note 1 D 8.

SCHEDULE "B" – CONSOLIDATED STATEMENT OF INCOME – MULTI-PERIOD DATA

	As at December 31				
	2013	2012	2011	2010	2009
	in NIS millions				
Interest income	6,822	(1)7,847	8,413	7,400	7,699
Interest expenses	2,572	(1)3,388	3,796	2,849	3,248
Interest income, net	4,250	4,459	4,617	4,551	4,451
Credit loss expenses	580	726	778	821	998
Net interest income after credit loss expenses	**3,670**	**3,733**	**3,839**	**3,730**	**3,453**
Non-interest Income					
Non-interest financing income	632	352	98	172	215
Commissions	2,704	2,685	2,670	2,725	2,895
Other income	183	220	169	99	266
Total non-interest income	**3,519**	**3,257**	**2,937**	**2,996**	**3,376**
Operating and other Expenses					
Salaries and related expenses	3,619	3,444	3,466	3,218	3,130
Maintenance and depreciation of buildings and equipment	1,247	(1)1,248	(1)1,201	(1)1,185	(1)1,118
Amortization and impairment of intangible assets and goodwill(2)	-	10	11	48	50
Other expenses	1,152	(1)1,124	(1)1,167	(1)1,208	(1)1,143
Total operating and other expenses	**6,018**	**5,826**	**5,845**	**5,659**	**5,441**
Income before taxes	1,171	1,164	931	1,067	1,388
Provision for taxes on income	305	407	114	479	556
Income after taxes	866	757	817	588	832
Bank's share in income of affiliated companies, net of tax effect	(2)45	(2)104	101	172	158
Net income:					
Before attribution to non-controlling rights holders	911	861	918	760	990
Attributed to the non-controlling rights holders	(37)	(59)	(71)	(70)	(72)
Net income attributed to bank's shareholders	**874**	**802**	**847**	**690**	**918**
Earnings per share of NIS 0.1 (in NIS):					
Total earnings per share attributed to Bank's shareholders	**0.83**	**0.76**	**0.80**	**0.69**	**0.92**
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869	997,578	993,979

Footnotes:

(1) Reclassified, see Note 1 C 5.2 to the financial statements.

(2) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES - CONSOLIDATED[(1)]

Part "A" - Average balances and interest rates - assets

	2013			2012			2011		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:[(3)]									
In Israel	93,094	4,754	5.11	95,134	5,260	5.53	95,799	5,815	6.07
Outside Israel	17,626	618	3.51	17,747	677	3.81	17,203	654	3.80
Total credit to the public	**110,720**	***5,372**	**4.85**	**112,881**	***5,937**	**5.26**	**113,002**	***6,469**	**5.72**
Credit to the Government:									
In Israel	1,738	38	2.19	1,633	24	1.47	1,580	39	2.47
Outside Israel	68	3	4.41	50	2	4.00	15	1	6.67
Total credit to the Government	**1,806**	**41**	**2.27**	**1,683**	**26**	**1.54**	**1,595**	**40**	**2.51**
Deposits with banks:									
In Israel	2,533	27	1.07	2,226	33	1.48	2,322	60	2.58
Outside Israel	2,145	26	1.21	2,392	31	1.30	1,888	25	1.32
Total deposits with banks	**4,678**	**53**	**1.13**	**4,618**	**64**	**1.39**	**4,210**	**85**	**2.02**
Deposits with central banks:									
In Israel	12,263	170	1.39	17,418	410	2.35	17,227	509	2.95
Outside Israel	1,458	5	0.34	1,099	5	0.45	585	3	0.51
Total deposits with central banks	**13,721**	**175**	**1.28**	**18,517**	**415**	**2.24**	**17,812**	**512**	**2.87**
Securities borrowed or purchased under resale agreements:									
In Israel	371	4	1.08	353	7	1.98	228	6	2.63
Total securities borrowed or purchased under resale agreements	**371**	**4**	**1.08**	**353**	**7**	**1.98**	**228**	**6**	**2.63**
Bonds held for redemption and available for sale:[(4)]									
In Israel	27,087	726	2.68	24,676	825	3.34	16,796	660	3.93
Outside Israel	16,075	340	2.12	17,906	454	2.54	16,615	524	3.15
Total bonds held for redemption and available for sale	**43,162**	**1,066**	**2.47**	**42,582**	**1,279**	**3.00**	**33,411**	**1,184**	**3.54**
Trading bonds:[(4)]									
In Israel	3,004	76	2.53	1,819	76	4.18	1,739	81	4.66
Outside Israel	53	[(9)]1	1.89	201	5	2.49	507	13	2.56
Total trading bonds	**3,057**	**77**	**2.52**	**2,020**	**81**	**4.01**	**2,246**	**94**	**4.19**
Other assets:									
In Israel	-	[(9)]15	-	-	[(9)]13	-	-	[(9)]2	-
Outside Israel	614	19	3.09	637	25	3.92	577	21	3.64
Total other assets	**614**	**34**	**5.54**	**637**	**38**	**5.97**	**577**	**23**	**3.99**
Total interest bearing assets	**178,129**	**6,822**	**3.83**	**183,291**	**7,847**	**4.28**	**173,081**	**8,413**	**4.86**
Debtors in respect of credit card operations	5,577			5,452			5,343		
Other non-interest bearing assets[(5)]	15,461			14,458			13,524		
Total assets	**199,167**			**203,201**			**191,948**		
Of which: Total interest bearing assets attributable to operations outside Israel	38,039	1,012	2.66	40,032	1,199	3.00	37,390	1,241	3.32
* Commissions included in interest income from credit to the public		164			118			112	
Of which: Credit allotment commissions		98			95			103	

For footnotes see page 313.

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "B" - Average balances and interest rates - liabilities and equity

	2013			2012			2011		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	14,794	41	0.28	12,718	71	0.56	11,877	119	1.00
In Israel - Time deposits	95,038	1,348	1.42	103,629	2,024	1.95	95,640	2,188	2.29
Total deposits from the public in Israel	**109,832**	**1,389**	**1.26**	**116,347**	**2,095**	**1.80**	**107,517**	**2,307**	**2.15**
Outside Israel - On call	13,349	54	0.40	12,052	50	0.41	10,080	40	0.40
Outside Israel - Time deposits	7,956	79	0.99	9,350	109	1.17	9,570	105	1.10
Total deposits from the public outside Israel	**21,305**	**133**	**0.62**	**21,402**	**159**	**0.74**	**19,650**	**145**	**0.74**
Total deposits from the public	**131,137**	**1,522**	**1.16**	**137,749**	**2,254**	**1.64**	**127,167**	**2,452**	**1.93**
Deposits from the Government:									
In Israel	374	5	1.34	385	6	1.56	361	9	2.49
Outside Israel	647	5	0.77	618	5	0.81	385	-	-
Total deposits from the Government	**1,021**	**10**	**0.98**	**1,003**	**11**	**1.10**	**746**	**9**	**1.21**
Deposits from banks:									
In Israel	2,483	44	1.77	2,514	69	2.74	2,947	88	2.99
Outside Israel	1,472	22	1.49	1,746	29	1.66	1,396	35	2.51
Total deposits from banks	**3,955**	**66**	**1.67**	**4,260**	**98**	**2.30**	**4,343**	**123**	**2.83**
Securities loaned or sold under repurchase agreements:									
Outside Israel	4,628	164	3.54	6,282	227	3.61	6,567	243	3.70
Total securities loaned or sold under repurchase agreements	**4,628**	**164**	**3.54**	**6,282**	**227**	**3.61**	**6,567**	**243**	**3.70**
Bonds:									
In Israel	12,055	802	6.65	12,376	789	6.38	12,297	921	7.49
Total bonds	**12,055**	**802**	**6.65**	**12,376**	**789**	**6.38**	**12,297**	**921**	**7.49**
Other liabilities:									
In Israel	154	[9]8	5.19	148	[9]9	6.08	97	[9]48	-
Total other liabilities	**154**	**8**	**5.19**	**148**	**9**	**6.08**	**97**	**48**	**-**
Total interest bearing liabilities	**152,950**	**2,572**	**1.68**	**161,818**	**3,388**	**2.09**	**151,217**	**3,796**	**2.51**
Non-interest bearing deposits from the public	19,808			15,781			16,180		
Creditors in respect of credit card operations	6,125			6,007			5,917		
Other non-interest bearing liabilities[6]	8,214			8,114			7,838		
Total liabilities	**187,097**			**191,720**			**181,152**		
Total capital resources	**12,070**			**11,481**			**10,796**		
Total liabilities and capital resources	**199,167**			**203,201**			**191,948**		
Interest margin		**4,250**	**2.15**		**4,459**	**2.19**			**2.35**
Net return on interest bearing assets:[7]									
In Israel	140,090	3,562	2.54	143,259	3,680	2.57	135,691	3,799	2.80
Outside Israel	38,039	688	1.81	40,032	779	1.95	37,390	818	2.19
Total net return on interest bearing assets	**178,129**	**4,250**	**2.39**	**183,291**	**4,459**	**2.43**	**173,081**	**4,617**	**2.67**
Of which: Total interest bearing liabilities attributable to operations outside Israel	28,052	324	1.15	30,048	420	1.40	27,998	423	1.51

For footnotes see page 313.

SCHEDULE "C" - RATES OF FINANCIAL 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

	2013			2012			2011		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	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 %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	98,846	4,051	4.10	97,820	4,811	4.92	88,732	4,911	5.53
Total interest bearing liabilities	(82,658)	(1,079)	(1.31)	(85,190)	(1,728)	(2.03)	(76,658)	(1,849)	(2.41)
Interest margin		**2,972**	**2.79**		**3,083**	**2.89**		**3,062**	**3.12**
CPI-linked shekels:									
Total interest bearing assets	24,790	1,289	5.20	25,856	1,216	4.70	26,991	1,623	6.01
Total interest bearing liabilities	(19,976)	(1,036)	(5.19)	(20,592)	(991)	(4.81)	(21,158)	(1,327)	(6.27)
Interest margin		**253**	**0.01**		**225**	**(0.11)**		**296**	**(0.26)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	16,454	470	2.86	19,583	621	3.17	19,968	638	3.20
Total interest bearing liabilities	(22,264)	(133)	(0.60)	(25,988)	(249)	(0.96)	(25,403)	(197)	(0.78)
Interest margin		**337**	**2.26**		**372**	**2.21**		**441**	**2.42**
Total operations in Israel:									
Total interest bearing assets	140,090	5,810	4.15	143,259	6,648	4.64	135,691	7,172	5.29
Total interest bearing liabilities	(124,898)	(2,248)	(1.80)	(131,770)	(2,968)	(2.25)	(123,219)	(3,373)	(2.74)
Interest margin		**3,562**	**2.35**		**3,680**	**2.39**		**3,799**	**2.55**

For footnotes see next page.

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES - CONSOLIDATED[(1)] (CONTINUED)

Part "D" - Analysis of changes in interest income and expenses

	2013 Compared to 2012			2012 Compared to 2011		
	Increase (decrease) due to change[(8)]			Increase (decrease) due to change[(8)]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	(104)	(402)	(506)	(37)	(518)	(555)
Outside Israel	(4)	(55)	(59)	21	2	23
Total credit to the public	**(108)**	**(457)**	**(565)**	**(16)**	**(516)**	**(532)**
Other interest bearing assets:						
In Israel	(25)	(307)	(332)	237	(206)	31
Outside Israel	(36)	(92)	(128)	49	(114)	(65)
Total other interest bearing assets	**(61)**	**(399)**	**(460)**	**286**	**(320)**	**(34)**
Total interest income	**(169)**	**(856)**	**(1,025)**	**270**	**(836)**	**(566)**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	(82)	(624)	(706)	159	(371)	(212)
Outside Israel	(1)	(25)	(26)	13	1	14
Total deposits from the public	**(83)**	**(649)**	**(732)**	**172**	**(370)**	**(198)**
Other interest bearing liabilities:						
In Israel	(20)	6	(14)	(16)	(177)	(193)
Outside Israel	(54)	(16)	(70)	9	(26)	(17)
Total other interest bearing liabilities	**(74)**	**(10)**	**(84)**	**(7)**	**(203)**	**(210)**
Total interest expenses	**(157)**	**(659)**	**(816)**	**165**	**(573)**	**(408)**
Interest income, net	**(12)**	**(197)**	**(209)**	**105**	**(263)**	**(158)**

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 287 million and NIS (6) million, respectively; 2012 – NIS (12) million and NIS 123 million respectively; 2011 – NIS (11) million and NIS (104) 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) Interest income on other assets and interest expenses on other liabilities include income tax interest income and expenses, respectively.

SCHEDULE "D" – EXPOSURE TO CHANGES IN INTEREST RATES – CONSOLIDATED

	As at December 31, 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]	75,234	14,896	7,076	5,039	1,574
Derivative financial instruments (except for options)	17,459	29,825	17,412	10,493	10,357
Options (in terms of base assets)	371	258	665	90	74
Total fair value	**93,064**	**44,979**	**25,153**	**15,622**	**12,005**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	72,309	9,087	10,122	5,064	807
Derivative financial instruments (except for options)	19,169	37,015	14,340	11,012	11,332
Options (in terms of base assets)	300	229	590	7	1
Off-balance sheet financial instruments	1	1	5	1	-
Total fair value	**91,779**	**46,332**	**25,057**	**16,084**	**12,140**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,285	(1,353)	96	(462)	(135)
Cumulative exposure in the segment	**1,285**	**(68)**	**28**	**(434)**	**(569)**
CPI linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	492	1,337	4,069	8,578	5,333
Derivative financial instruments (except for options)	222	462	232	695	800
Options (in terms of base assets)	-	2	7	7	1
Total fair value	**714**	**1,801**	**4,308**	**9,280**	**6,134**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	396	1,015	4,235	6,293	3,457
Derivative financial instruments (except for options)	1,072	245	2,648	1,488	445
Options (in terms of base assets)	-	1	7	24	25
Off-balance sheet financial instruments	1	1	4	1	-
Total fair value	**1,469**	**1,262**	**6,894**	**7,806**	**3,927**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(755)	539	(2,586)	1,474	2,207
Cumulative exposure in the segment	**(755)**	**(216)**	**(2,802)**	**(1,328)**	**879**

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 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
				in NIS millions					
4,221	589	20	545	109,194	3.46%	0.61	106,722	4.21%	0.69
5,736	57	-	-	91,339		1.31	79,166		1.36
40	3	-	-	1,501		0.01	2,408		0.01
9,997	**649**	**20**	**545**	**202,034**		**(2)0.93**	**188,296**		**(2)0.96**
675	86	-	7	98,157	0.95%	0.26	96,090	1.51%	0.29
6,125	-	-	-	98,993		1.30	89,005		1.30
-	-	-	-	1,127		0.01	2,044		0.01
-	-	-	-	8		0.01	10		0.01
6,800	**86**	**-**	**7**	**198,285**		**(2)0.76**	**187,149**		**(2)0.76**
3,197	563	20	538	3,749			1,147		
2,628	**3,191**	**3,211**	**3,749**						
4,821	949	42	61	25,682	2.09%	3.38	25,530	2.08%	3.78
743	8	-	-	3,162		3.09	3,109		3.09
-	-	-	-	17		0.01	54		0.01
5,564	**957**	**42**	**61**	**28,861**		**(2)3.35**	**28,693**		**(2)3.70**
5,932	532	-	-	21,860	0.98%	3.54	22,050	1.14%	4.04
916	-	-	-	6,814		1.72	4,441		2.78
-	-	-	-	57		0.01	239		0.01
-	-	-	-	7		0.64	9		0.64
6,848	**532**	**-**	**-**	**28,738**		**(2)3.10**	**26,739**		**(2)3.79**
(1,284)	425	42	61	123			1,954		
(405)	**20**	**62**	**123**						

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 Note 21 a-c.

(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, as included in Note 21 a-c.

(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.

(d) Full data as the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

SCHEDULE "D" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED (CONTINUED)

	As at December 31, 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]	27,102	9,419	4,126	3,808	2,883
Derivative financial instruments (except for options)	23,568	22,133	18,672	3,820	2,489
Options (in terms of base assets)	3,072	1,722	1,603	21	-
Total fair value	**53,742**	**33,274**	**24,401**	**7,649**	**5,372**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	39,952	7,447	9,562	2,837	2,620
Derivative financial instruments (except for options)	19,466	18,356	14,361	3,883	2,892
Options (in terms of base assets)	3,138	1,751	1,666	73	38
Off-balance sheet financial instruments	-	-	1	-	-
Total fair value	**62,556**	**27,554**	**25,590**	**6,793**	**5,550**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(8,814)	5,720	(1,189)	856	(178)
Cumulative exposure in the segment	**(8,814)**	**(3,094)**	**(4,283)**	**(3,427)**	**(3,605)**
Total exposure to changes in interest rates					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1],[3]	102,831	25,652	15,271	17,425	9,790
Derivative financial instruments (except for options)	41,249	52,420	36,316	15,008	13,646
Options (in terms of base assets)	3,443	1,982	2,275	118	75
Total fair value	**147,523**	**80,054**	**53,862**	**32,551**	**23,511**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	112,660	17,549	23,919	14,194	6,884
Derivative financial instruments (except for options)	39,707	55,616	31,349	16,383	14,669
Options (in terms of base assets)	3,438	1,981	2,263	104	64
Off-balance sheet financial instruments	2	2	77	2	-
Total fair value	**155,807**	**75,148**	**57,608**	**30,683**	**21,617**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(8,284)	4,906	(3,746)	1,868	1,894
Cumulative exposure in the segment	**(8,284)**	**(3,378)**	**(7,124)**	**(5,256)**	**(3,362)**

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.

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	As at December 31, 2012 Total fair value	Internal rate of return In %	Effective average duration In years
			in NIS millions						
4,384	2,862	-	797	55,381	2.75%	1.56	58,814	2.53%	1.16
4,943	-	-	-	75,625		0.59	65,301		0.60
-	-	-	-	6,418		0.01	4,368		0.01
9,327	**2,862**	**-**	**797**	**137,424**		**(2)0.95**	**128,483**		**(2)0.84**
1,080	16	-	-	63,514	0.56%	0.48	66,715	0.65%	0.58
6,188	8	-	-	65,154		0.80	55,121		0.81
30	2	-	-	6,698		0.01	4,510		0.01
-	-	-	-	1		0.67	1		0.67
7,298	**26**	**-**	**-**	**135,367**		**(2)0.61**	**126,347**		**(2)0.66**
2,029	2,836	-	797	2,057			2,136		
(1,576)	**1,260**	**1,260**	**2,057**						
13,426	4,400	62	2,268	191,125	3.07%	1.26	191,772	3.41%	1.25
11,422	65	-	-	170,126		1.02	147,576		1.06
40	3	-	-	7,936		0.01	6,830		0.01
24,888	**4,468**	**62**	**2,268**	**369,187**		**(2)1.13**	**346,178**		**(2)1.14**
7,687	634	-	7	183,534	0.82%	0.73	184,855	1.16%	0.84
13,229	8	-	-	170,961		1.13	148,567		1.16
30	2	-	-	7,882		0.01	6,793		0.01
-	-	-	-	83		0.06	78		0.08
20,946	**644**	**-**	**7**	**362,460**		**(2)0.90**	**340,293**		**(2)0.96**
3,942	3,824	62	2,261	6,727			5,885		
580	**4,404**	**4,466**	**6,727**						

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 Note 21 a-c.

(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, as included in Note 21 a-c.

(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.

(d) Full data as the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

SCHEDULE "E" – CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS

	December 31, 2013								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total[10]	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Annual Credit Loss Expenses	Net Accounting Write-Offs Recognized during the year	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	994	41	992	787	42	25	1	4	22
Industry	15,763	1,546	15,563	11,492	1,518	707	233	72	409
Construction and Real Estate - Construction	[7]13,880	618	13,860	5,696	618	332	(6)	16	162
Construction and Real Estate - Real Estate Activity	10,030	764	9,968	8,273	764	591	55	12	147
Electricity and Water	2,991	21	2,236	1,754	21	9	-	2	5
Commerce	14,382	907	14,220	11,583	907	296	160	32	288
Hotels, Hotel Services and Food	2,002	259	2,001	1,712	259	247	3	3	18
Transportation and Storage	3,172	71	3,108	2,451	64	32	23	16	31
Communication and Computer Services	2,320	354	2,142	1,647	349	195	5	3	38
Financial Services	9,836	292	7,887	6,566	291	147	(48)	(19)	131
Other Business Services	6,498	131	6,451	4,710	132	86	19	18	79
Public and Community Services	2,215	24	2,212	1,559	24	11	(1)	1	13
Commercial Total	**84,083**	**5,028**	**80,640**	**58,230**	**4,989**	**2,678**	**444**	**160**	**1,343**
Private Individuals - Housing Loans	21,045	471	21,045	19,928	471	-	31	1	254
Private Individuals - Other	38,797	347	38,770	18,802	346	95	-	41	341
Total Public	**143,925**	**5,846**	**140,455**	**96,960**	**5,806**	**2,773**	**475**	**202**	**1,938**
Banks in Israel	2,718	-	1,404	1,142	-	-	-	-	1
Israeli Government	28,020	-	2,195	1,806	-	-	-	-	-
Total Lending Activity in Israel	**174,663**	**5,846**	**144,054**	**99,908**	**5,806**	**2,773**	**475**	**202**	**1,939**
Lending Activity Outside of Israel									
Agriculture	185	-	185	167	-	-	-	-	2
Industry	6,899	77	6,869	3,798	77	5	(39)	1	50
Construction and Real Estate - Construction	863	361	853	814	361	360	7	104	43
Construction and Real Estate - Real Estate Activity	7,091	714	7,002	5,281	707	500	-	13	68
Electricity and Water	401	-	394	356	-	-	(1)	-	2
Commerce	5,456	136	5,454	3,725	136	136	56	114	50
Hotels, Hotel Services and Food	896	133	896	893	133	133	2	-	16
Transportation and Storage	1,017	46	1,010	802	46	46	19	-	41
Communication and Computer Services	187	25	183	127	25	25	11	-	13
Financial Services	11,668	[6]308	2,628	1,741	133	133	43	37	46
Of which: Federal agencies in the U.S. [8]	8,008	-	-	-	-	-	-	-	-
Other Business Services	1,871	76	1,855	1,316	76	26	(9)	12	29
Public and Community Services	[9]2,661	5	725	719	-	-	5	-	6
Commercial Total	**39,195**	**1,881**	**28,054**	**19,739**	**1,694**	**1,364**	**94**	**281**	**366**
Private Individuals - Housing Loans	79	6	79	79	6	-	-	-	1
Private Individuals - Other	1,813	10	1,810	1,215	10	10	13	13	13
Total Public	**41,087**	**1,897**	**29,943**	**21,033**	**1,710**	**1,374**	**107**	**294**	**380**
Banks Outside of Israel	9,923	-	6,089	5,861	-	-	(2)	-	2
Governments Outside of Israel	466	-	29	29	-	-	-	-	-
Total Lending Activity Outside of Israel	**51,476**	**1,897**	**36,061**	**26,923**	**1,710**	**1,374**	**105**	**294**	**382**
TOTAL	**226,139**	**7,743**	**180,115**	**126,831**	**7,516**	**4,147**	**580**	**496**	**2,321**
Excluding balances classified as assets and liabilities held for sale – see Note 8A.	4,131	-	2,196	2,065	-	-	-	-	5

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 126,831, 40,457, 102, 4,088, 54,661 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 176 million.

(7) Including acquisition groups in an amount of NIS 760 millions.

(8) Including mortgage backed securities in the amount of NIS 2,026 millions, issued by GNMA and in the amount of NIS 5,982 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and U.S. Government bonds.

(10) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,682 million

SCHEDULE "E" - CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

	December 31, 2012								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total[14][15]	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Annual Credit Loss Expenses	Net Accounting Write-Offs Recognized during the year	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	1,146	91	1,142	919	91	28	9	5	25
Industry	16,188	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	2,988	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]10,802	758	[12]9,450	[12]7,698	671	422	244	130	159
Other Business Services	7,112	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	**86,015**	**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	**142,843**	**5,724**	**140,082**	**96,487**	**5,575**	**3,203**	**521**	**485**	**1,654**
Banks in Israel	3,142	-	1,577	1,267	-	-	-	-	-
Israeli Government	28,925	-	2,164	1,614	-	-	-	-	-
Total Lending Activity in Israel	**174,910**	**5,724**	**143,823**	**99,368**	**5,575**	**3,203**	**521**	**485**	**1,654**
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	10,198	85	6,879	6,711	-	-	1	-	5
Governments Outside of Israel	1,421	-	82	82	-	-	-	-	-
Total Lending Activity Outside of Israel	**59,868**	**3,318**	**40,326**	**30,002**	**2,917**	**2,381**	**205**	**125**	**607**
TOTAL	**234,778**	**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, 3,724, 56,003 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).

(14) Reclassified, assets in respect of derivative instruments are presented after attribution of effects of the implementation of the directives of the Supervisor of Banks in the matter of offsetting assets and liabilities, see Note 1 D 8.

(15) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,424 million.

SCHEDULE "F" - 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 shareholders' equity, the lower of the two - 2013

	December 31, 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	1,270	3,413	1,306
United Kingdom	-	2,232	121
PIIGS[5]	-	58	22
Other	287	4,701	2,774
Total exposure to foreign countries	**1,557**	**10,404**	**4,223**
Of which - Total exposure to LDC countries	**146**	**728**	**659**

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% of shareholders' equity, whichever is lower.

The total exposure to foreign countries as of December 31, 2013, includes exposure on a consolidated basis to Switzerland, amounting on a consolidated basis to NIS 1,894 million. As of December 31, 2012, the Bank had no such exposure.

C. Information regarding exposure to foreign countries having liquidity problems, for the year ending December 31, 2013:

	Balance sheet balances
	Ireland
	In NIS millions
Amount of exposure at the beginning of year	9
Changes in remaining exposure:	
Added exposure	51
Amounts collected	(5)
Other changes (including provisions and write-offs)	1
Amount of exposure at period end	**56**

	December 31, 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									
	25,833	16,993	8,840	14,829	642	248	6,796	-	4,395	1,594
	836	54	782	3,135	486	486	83	-	1,612	741
	-	-	-	80	-	-	15	-	36	44
	3,019	2,350	669	8,431	85	84	1,144	4	4,464	3,298
	29,688	**19,397**	**10,291**	**26,475**	**1,213**	**818**	**8,038**	**4**	**10,507**	**5,677**
	-	**-**	**-**	**1,533**	**-**	**-**	**190**	**-**	**1,022**	**511**

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 "F" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1] (CONTINUED)

D. 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 - 2012

	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.

December 31, 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 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)

E. Information regarding the balance-sheet exposure to foreign countries having liquidity troubles for the year ended December 31, 2012

	Balance sheet balances
	Ireland
	In NIS millions
Amount of exposure at the beginning of year	29
Changes in remaining exposure:	
Amounts collected	(20)
Amount of exposure at period end	**9**

SCHEDULE "G" – CONDENSED CONSOLIDATED BALANCE SHEET – MULTI QUARTER DATA

	2013				2012			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	25,319	22,758	19,795	22,328	24,100	27,544	22,454	27,077
Securities	41,325	47,124	48,832	48,140	46,001	45,334	45,455	45,240
Securities borrowed or purchased under resale agreements	102	312	69	632	387	678	423	224
Credit to the public	117,993	118,684	117,192	118,224	119,696	121,042	121,333	117,034
Provision for credit loss	(2,134)	(2,186)	(2,071)	(2,069)	(2,085)	(2,002)	(1,921)	(1,954)
Credit to the public, net	115,859	116,498	115,121	116,155	117,611	119,040	119,412	115,080
Credit to Governments	1,835	1,856	1,824	1,705	1,696	1,734	1,703	1,651
Investments in affiliated companies	1,668	1,822	1,775	1,757	1,724	1,622	1,566	1,649
Buildings and equipment	2,696	2,762	2,824	2,887	2,962	2,970	3,022	3,029
Intangible assets and goodwill	142	142	142	142	142	145	148	149
Assets in respect of derivative instruments	4,080	3,392	3,603	3,377	(1)3,727	3,254	3,403	2,348
Other assets	3,277	3,349	3,216	3,010	2,662	2,913	3,045	2,857
Noncurrent assets held for sale	4,204	10	6	2	-	6	11	11
Total Assets	**200,507**	**200,025**	**197,207**	**200,135**	**201,012**	**205,240**	**200,642**	**199,315**

Footnote:

(1) Reclassified, see note 1 D 8.

SCHEDULE "G" - CONDENSED CONSOLIDATED BALANCE SHEET - MULTI QUARTER DATA (CONTINUED)

	2013				2012			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Liabilities and Equity								
Deposits from the public	148,928	152,111	149,502	151,933	151,935	154,688	150,862	149,811
Deposits from banks	4,213	3,833	4,153	3,276	3,720	5,412	4,352	4,866
Deposits from the Government	972	1,019	1,004	1,062	1,005	1,059	1,030	951
Securities loaned or sold under buy-back arrangements	3,644	4,227	4,158	4,818	5,452	5,752	5,867	7,020
Subordinated capital notes	11,664	12,089	12,025	11,928	12,284	12,422	12,434	12,346
Liabilities in respect of derivative instruments	4,898	4,381	4,595	4,550	(1)4,708	4,005	4,373	3,687
Other liabilities	9,719	9,834	9,479	10,315	9,774	9,959	10,091	9,390
Liabilities held for sale	3,931	-	-	-	-	-	-	-
Total liabilities	187,969	187,494	184,916	187,882	188,878	193,297	189,009	188,071
Equity capital attributed to the Bank's shareholders	12,233	12,228	11,991	11,948	11,838	11,613	11,307	10,920
Non-controlling rights in consolidated companies	305	303	300	305	296	330	326	324
Total equity	12,538	12,531	12,291	12,253	12,134	11,943	11,633	11,244
Total Liabilities and Equity	**200,507**	**200,025**	**197,207**	**200,135**	**201,012**	**205,240**	**200,642**	**199,315**

Footnote:
(1) Reclassified, see note 1 D 8.

SCHEDULE "H" - CONSOLIDATED STATEMENT OF INCOME FOR EACH QUARTER - MULTI QUARTER DATA

	2013			
Quarter	4	3	2	1
	In NIS millions			
Interest income	1,531	1,865	1,758	1,668
Interest expenses	460	771	717	624
Interest income, net	1,071	1,094	1,041	1,044
Credit loss expenses	123	171	141	145
Net interest income after credit loss expenses	**948**	**923**	**900**	**899**
Non-interest Income				
Non-interest financing income	116	90	236	190
Commissions	684	684	668	668
Other income	61	65	20	37
Total non-interest income	**861**	**839**	**924**	**895**
Operating and other Expenses				
Salaries and related expenses	921	889	933	876
Maintenance and depreciation of buildings and equipment	316	321	303	307
Other expenses	320	275	268	289
Total operating and other expenses	**1,557**	**1,485**	**1,504**	**1,472**
Income before taxes	252	277	320	322
Provision for taxes on income	51	47	89	118
Income after taxes	201	230	231	204
Bank's share in income (loss) of affiliated companies, net of tax effect	(1)(121)	56	42	68
Net income:				
Before attribution to non-controlling rights holders in consolidated companies	80	286	273	272
Attributed to the non-controlling rights holders in consolidated companies	(8)	(10)	(10)	(9)
Net income attributed to bank's shareholders	**72**	**276**	**263**	**263**
Earnings per share of NIS 0.1 par value (in NIS):				
Total earnings per share attributed to Bank's shareholders	**0.07**	**0.26**	**0.25**	**0.25**
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869	1,053,869

Footnote:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

SCHEDULE "H" - CONSOLIDATED STATEMENT OF INCOME FOR EACH QUARTER - MULTI QUARTER DATA (CONTINUED)

	2012			
Quarter	4	3	2	1
	In NIS millions			
Interest income	(1)1,637	2,076	(1)2,207	(1)1,927
Interest expenses	(1)571	934	(1)1,054	(1)829
Interest income, net	1,066	1,142	1,153	1,098
Credit loss expenses	252	233	118	123
Net interest income after credit loss expenses	**814**	**909**	**1,035**	**975**
Non-interest Income				
Non-interest financing income	59	94	37	162
Commissions	660	693	673	659
Other income	65	73	34	48
Total non-interest income	**784**	**860**	**744**	**869**
Operating and other Expenses				
Salaries and related expenses	785	882	877	900
Maintenance and depreciation of buildings and equipment	(1)320	(1)309	(1)310	(1)309
Amortization and impairment of intangible assets	2	3	2	3
Other expenses	(1)272	(1)300	(1)264	(1)288
Total operating and other expenses	**1,379**	**1,494**	**1,453**	**1,500**
Income before taxes	219	275	326	344
Provision for taxes on income	107	78	107	115
Income after taxes	112	197	219	229
Bank's share in income (loss) of affiliated companies, net of tax effect	71	39	(2)(38)	32
Net income:				
Before attribution to non-controlling rights holders in consolidated companies	183	236	181	261
Attributed to the non-controlling rights holders in consolidated companies	(14)	(15)	(16)	(14)
Net income attributed to bank's shareholders	**169**	**221**	**165**	**247**
Earnings per share of NIS 0.1 par value (in NIS):				
Total earnings per share attributed to Bank's shareholders	**0.16**	**0.21**	**0.16**	**0.23**
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869	1,053,869

Footnotes:

(1) Reclassified, see Note 1 C 5.2 to the financial statements.

(2) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

CERTIFICATION

I, Lilach Asher Topilsky, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 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 financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' 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 internal control 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) Designed 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; and
   (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.
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, to the audit committee of the Board of Directors, and to the finance 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.

Lilach Asher Topilsky,
President & Chief Executive Officer

March 19, 2014

CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 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 financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' 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 internal control 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) Designed 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; and
   (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.
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, to the audit committee of the Board of Directors, and to the finance 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

March 19, 2014

REPORT OF THE DIRECTORS AND MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"). The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made in accordance with authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2012, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, Management believes that as of December 31, 2013, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2013 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 332, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2013.

March 19, 2014	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant

FINANCIAL STATEMENTS 2013

332	Report of the Independent Auditors to the Shareholders of Israel Discount Bank Ltd. – in accordance with the public reporting directive of the Supervisor of Banks regarding Internal Control over Financial Reporting
334	Auditors' Report to the Shareholders of Israel Discount Bank Ltd. – Annual Financial Statements
335	Balance Sheet – Consolidated and the Bank
336	Statement of Income – Consolidated
337	Statement of Income – The Bank
338	Statement of Comprehensive Income
339	Statement of Changes in Shareholders' Equity
341	Statement of Cash Flows – Consolidated and the Bank
344	**Notes to the Financial Statements**

Somekh Chaikin

Ziv Haft

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD. - IN ACCORDANCE WITH THE PUBLIC REPORTING DIRECTIVE OF THE SUPERVISOR OF BANKS REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB), regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a bank over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a bank over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2013 and 2012, and the statements of Income, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2013, and our report dated March 19, 2014, expressed an unqualified opinion on these financial statements as well as calling attention to Note 19 C items 12.6 and 13 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 19, 2014

Ziv Haft
Certified Public Accountants (Isr.)

Somekh Chaikin

AUDITORS' REPORT TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD. - ANNUAL FINANCIAL STATEMENTS

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and its consolidated subsidiaries: Balance sheets as at December 31, 2013 and December 31, 2012, statements of income, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended December 31, 2013. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2013 and 2012, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2013, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 19 C items 12.6 and 13 concerning motions for the approval of certain lawsuits as class action suits against the Bank and investee companies.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report of March 19, 2014, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 19, 2014

Ziv Haft
Certified Public Accountants (Isr.)

BALANCE SHEET AS AT DECEMBER 31

		Consolidated		The Bank	
	Notes	2013	2012	2013	2012
		in NIS millions			
Assets					
Cash and deposits with banks	2,15	25,319	24,100	20,196	17,545
Securities (of which 6,047, 6,043, 4,558, 4,613 respectively, pledged to lenders)	3,15	41,325	46,001	22,612	23,624
Securities borrowed or purchased under resale agreements		102	387	102	387
Credit to the public	4	117,993	119,696	79,493	82,404
Provision for credit loss	4	(2,134)	(2,085)	(1,436)	(1,375)
Credit to the public, net		115,859	117,611	78,057	81,029
Credit to Governments	5	1,835	1,696	1,806	1,614
Investment in investee companies (consolidated – affiliated companies)	6	1,668	1,724	9,006	9,176
Buildings and equipment	7	2,696	2,962	1,957	2,161
Intangible assets and goodwill	7a	142	142	-	-
Assets in respect of derivative instruments		4,080	(2)3,727	4,012	3,521
Other assets	8	3,277	2,662	1,724	1,168
Noncurrent assets held for sale	8a	4,204	-	8	-
Total Assets		**200,507**	**201,012**	**139,480**	**140,225**
Liabilities and Equity					
Deposits from the public	9	148,928	151,935	111,178	111,810
Deposits from banks	10	4,213	3,720	2,337	3,118
Deposits from the Government		972	1,005	216	223
Securities loaned or sold under buy-back arrangements		3,644	5,452	-	-
Subordinated capital notes		11,664	12,284	3,626	3,955
Liabilities in respect of derivative instruments	11	4,898	(2)4,708	4,691	4,253
Other liabilities(1)	12	9,719	9,774	5,199	5,028
Liabilities held for sale	8a	3,931	-	-	-
Total liabilities		187,969	188,878	127,247	128,387
Equity capital attributed to the Bank's shareholders	13	12,233	11,838	12,233	11,838
Non-controlling rights in consolidated companies		305	296	-	-
Total equity		12,538	12,134	12,233	11,838
Total Liabilities and Equity		**200,507**	**201,012**	**139,480**	**140,225**

Footnotes:

(1) Of which NIS 184 million and NIS 171 million in the consolidated, and NIS 153 million and NIS 134 million in the bank, as of December 31, 2013, and December 31, 2012, provision for credit loss in respect of off-balance sheet credit instruments.

(2) Reclassified, see note 1 D 8.

The notes to the financial statements are an integral part thereof.

March 19, 2014

Dr. Yossi Bachar
Chairman of the
Board of Directors

Ms. Lilach Asher Topilsky
President &
Chief Executive Officer

Joseph Beressi
Senior Executive Vice President,
Chief Accountant

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

		Consolidated		
	Notes	2013	2012	2011
		in NIS millions		
Interest income		6,822	(1)7,847	8,413
Interest expenses		2,572	(1)3,388	3,796
Interest income, net	23	4,250	4,459	4,617
Credit loss expenses	4a	580	726	778
Net interest income after credit loss expenses		**3,670**	**3,733**	**3,839**
Non-interest Income				
Non-interest financing income	24	632	352	98
Commissions	25	2,704	2,685	2,670
Other income	26	183	220	169
Total non-interest income		**3,519**	**3,257**	**2,937**
Operating and other Expenses				
Salaries and related expenses	27	3,619	3,444	3,466
Maintenance and depreciation of buildings and equipment		1,247	(1)1,248	(1)1,201
Amortization of intangible assets		-	10	11
Other expenses	28	1,152	(1)1,124	(1)1,167
Total operating and other expenses		**6,018**	**5,826**	**5,845**
Income before taxes		1,171	1,164	931
Provision for taxes on income	29	305	407	114
Income after taxes		866	757	817
Bank's share in income of affiliated companies, net of tax effect	6b	(2)45	(2)104	101
Net income:				
Before attribution to non-controlling rights holders in consolidated companies		911	861	918
Attributed to the non-controlling rights holders in consolidated companies		(37)	(59)	(71)
Net income attributed to Bank's shareholders		**874**	**802**	**847**
Earnings per share of NIS 0.1 par value (in NIS)	13,36			
Total earnings per share attributed to Bank's shareholders		**0.83**	**0.76**	**0.80**

Footnotes:

(1) Reclassified, see Note 1 C 5.2.

(2) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

The notes to the financial statements form an integral part thereof.

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

		The Bank		
	Notes	2013	2012	2011
		in NIS millions		
Interest income		4,494	(1)5,286	5,755
Interest expenses		1,855	(1)2,491	2,831
Interest income, net	23	2,639	2,795	2,924
Credit loss expenses	4a	426	589	574
Net interest income after credit loss expenses		**2,213**	**2,206**	**2,350**
Non-interest Income				
Non-interest financing income	24	379	138	(368)
Commissions	25	1,312	1,268	1,260
Other income	26	220	233	170
Total non-interest income		**1,911**	**1,639**	**1,062**
Operating and other Expenses				
Salaries and related expenses	27	2,414	2,219	2,248
Maintenance and depreciation of buildings and equipment		906	(1)903	(1)874
Other expenses	28	447	(1)427	(1)432
Total operating and other expenses		**3,767**	**3,549**	**3,554**
Income (loss) before taxes		357	296	(142)
Provision for taxes (tax savings) on income	29	69	121	(113)
Income (loss) after taxes		288	175	(29)
Bank's share in income of affiliated companies, net of tax effect	6b	(2)586	(2)627	876
Net income attributed to bank's shareholders		**874**	**802**	**847**

Footnotes:

(1) Reclassified, see Note 1 C 5.2.

(2) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

The notes to the financial statements are an integral part thereof.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31[1]

	2013	2012	2011
	in NIS millions		
Net income before attribution to non-controlling rights holders in consolidated companies	911	861	918
Net income attributed to non-controlling rights holders in consolidated companies	(37)	(59)	(71)
Net income attributed to the Bank's shareholders	**874**	**802**	**847**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for- sale securities at fair value	(407)	673	(231)
Financial statements translation adjustments, net after hedge effects	(223)	(77)	1
Net income (loss) in respect of cash flows hedge	7	(3)	(15)
Other comprehensive income (loss), before taxes:	(623)	593	(245)
Effect of attributed taxes	167	(259)	101
Other comprehensive income (loss), before attribution to non-controlling rights holders in consolidated companies, after taxes	(456)	334	(144)
Other comprehensive income attributed to non-controlling rights holders in consolidated companies	-	-	2
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**(456)**	**334**	**(142)**
Comprehensive income, before attribution to non-controlling interests holders in consolidated companies	455	1,195	774
Comprehensive income, attributed to non-controlling interests holders in consolidated companies	(37)	(59)	(69)
Comprehensive income, attributed to the Bank's shareholders	**418**	**1,136**	**705**

Footnote:

(1) See Note 33.

The notes to the financial statements form an integral part thereof.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY[1]

Balance at December 31, 2010
Cumulative effect, net of tax, of the initial implementation on Jan 1, 2011, of the Directive regarding the measurement of impaired debts and provision for credit losses
Cumulative effect, net of tax, of the initial application on Jan 1, 2011, of IFRS
Balance as of January 1, 2011, after adjustments stemming from the implementation of new standards and directives
Net Income for the year
Dividend to non-controlling rights holders in consolidated companies
Sale of shares in subsidiary companies to non-controlling rights holders
Option expiration[2]
Provision for tax on an investment in an affiliated company in respect of items recorded in the equity
Other comprehensive loss after tax effect
Balance at December 31, 2011
Net Income for the year
Dividend to non-controlling rights holders in consolidated companies
Option expiration[2]
Other comprehensive income after tax effect
Balance at December 31, 2012
Net income for the year
Provision for tax on an investment in an affiliated company in respect of items recorded in the equity
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive loss after tax effect
Balance at December 31, 2013

Footnotes:

(1) For details regarding the change in the format of the statement, see Note 1 D 20.

(2) In respect of 1,438,272 expired option warrants in 2012 (8,433,498 in 2011).

The notes to the financial statements are an integral part thereof.

	Capital reserves								
Paid up share capital	Share premium	Benefit in respect of share-based payment transactions	Other	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling rights holders in consolidated subsidiaries	Total equity
in NIS millions									
665	3,410	24	212	4,311	(99)	6,603	10,815	328	11,143
-	-	-	-	-	-	(830)	(830)	(5)	(835)
-	-	-	-	-	231	(231)	-	-	-
665	**3,410**	**24**	**212**	**4,311**	**132**	**5,542**	**9,985**	**323**	**10,308**
-	-	-	-	-	-	847	847	71	918
-	-	-	-	-	-	-	-	(55)	(55)
-	-	-	-	-	-	(11)	(11)	(18)	(29)
-	18	(18)	-	-	-	-	-	-	-
-	-	-	-	-	-	23	23	-	23
-	-	-	-	-	(142)	-	(142)	(2)	(144)
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**
-	-	-	-	-	-	874	874	37	911
-	-	-	-	-	-	(23)	(23)	-	(23)
-	-	-	-	-	-	-	-	(28)	(28)
-	-	-	-	-	(456)	-	(456)	-	(456)
665	**3,434**	**-**	**212**	**4,311**	**(132)**	**8,054**	**12,233**	**305**	**12,538**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling rights holders in consolidated companies	911	861	918	874	802	847
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed income of affiliated companies	(159)	(202)	(127)	(718)	(758)	(925)
Depreciation of buildings and equipment (including impairment in value)	619	(3)590	(3)580	449	(3)449	(3)437
Amortization of intangible assets	-	10	11	-	-	-
Provision for impairment of securities held for investment	33	28	42	3	-	14
Credit loss expenses	1,036	1,167	1,178	719	883	813
Loss (gain) on sale of credit portfolio	(30)	1	(4)(46)	(28)	-	(4)(53)
Gain on sale of available-for-sale and held - to - maturity securities	(511)	(399)	(258)	(327)	(219)	(91)
Realized and non realized gain from adjustment to fair value of trading securities	(10)	(32)	(19)	(7)	(27)	(23)
Provision for impairment of investee company(1)	185	113	-	185	113	-
Gain from realization at an investment in investee companies	(23)	-	(26)	-	-	-
Gain on realization of buildings and equipment		(27)	(35)	(1)	(7)	-
Net deferred taxes	(214)	44	(131)	(110)	(21)	(42)
Severance pay – increase in excess of provision over the deposits	(42)	7	140	(10)	20	26
Net change in current assets:		-	-			
Deposits with banks	(401)	587	(274)	(143)	841	(310)
Credit to the public, net	496	(4)(2,044)	(4)(2,504)	2,309	(357)	(4)160
Credit to the Government	(163)	(56)	(84)	(192)	2	(65)
securities borrowed or purchased under resale agreements	285	(242)	(100)	285	(242)	(100)
Assets in respect of derivative instruments	(353)	(2)(484)	(1,075)	(491)	(479)	(1,085)
Trading securities	773	(300)	(1,158)	756	(687)	(809)
Other assets	(282)	202	582	(416)	298	586
Noncurrent assets held for sale	(977)					
Effect of changes in exchange rate on cash and cash equivalent balances	(185)	(44)	219	(180)	(57)	33
Accrual differences included in investment and financing activities	1,828	517	(900)	384	(14)	41
Net change in current liabilities:		-	-			
Deposits from banks	508	(529)	862	(781)	(1,273)	848
Deposits from the public	90	(1,528)	15,556	(1,407)	(4,352)	11,130
Deposits from the Government	(33)	80	464	(7)	2	19
securities borrowed or purchased under resale agreements	(1,808)	(1,248)	(527)	-	-	-
Liabilities in respect of derivative instruments	197	(2)143	1,217	438	79	1,202
Other liabilities	14	(5)217	(505)	154	89	(535)
Adjustments in respect of exchange rate differences on current assets and liabilities	(73)	10	-	-	-	-
Net Cash Flows from Operating Activities	**1,711**	**(2,558)**	**14,000**	**1,738**	**(4,915)**	**12,118**

Footnotes:
(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).
(2) Reclassified, see note 1 D 8.
(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 change in credit to the public.
(5) Reclassified - The separate presentation of non-cash purchase of fixed assets.
The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
Cash Flows from Investing Activities						
Acquisition of held-to-maturity bonds	(1,125)	(1,788)	(645)	(480)	(407)	(359)
Proceeds from redemption of held-to-maturity bonds	658	976	1,506	-	-	-
Proceeds from held-to-maturity bonds in a consolidated company	-	-	166	-	-	-
Acquisition of available-for-sale securities	(21,960)	(23,826)	(21,168)	(11,771)	(10,551)	(7,049)
Proceeds from sale of available-for-sale securities	14,083	15,157	11,093	8,366	5,881	4,736
Gain on sale of credit portfolio	547	(2)55	2,094	509	-	(2)1,652
Proceeds from redemption of available-for-sale securities	8,819	7,107	5,706	4,316	1,707	254
Reduction of (additional) investment in an activity in an investee company	(24)	1	(5)	12	(86)	(89)
Proceeds of the sale of investments in investee companies and dividend	53	-	165	330	712	202
Acquisition of buildings and equipment	(396)	(3)(492)	(520)	(228)	(332)	(364)
Proceeds from sale of buildings and equipment	4	54	49	1	16	-
Net Cash Flows from Investing Activities	**659**	**(2,756)**	**(1,559)**	**1,055**	**(3,060)**	**(1,017)**
Cash Flows from Financing Activities						
Issuance of subordinated capital notes	-	440	344	-	290	79
Redemption of subordinated capital notes	(884)	(647)	(677)	(465)	(274)	(498)
Sale of shares in a subsidiary to no -controlling right holders	-	-	34	-	-	-
Dividend to non-controlling rights holders in consolidated companies	(28)	(82)	(55)	-	-	-
Net cash flows from Financing Activities	**(912)**	**(289)**	**(354)**	**(465)**	**16**	**(419)**
Increase (decrease) in cash	1,458	(5,603)	12,087	2,328	(7,959)	10,682
Cash balance at beginning of period	22,265	27,910	16,042	16,830	24,732	14,083
Effect of changes in exchange rate on cash and cash equivalent balances	42	(42)	(219)	180	57	(33)
Cash balance at end of period	**23,765**	**22,265**	**27,910**	**19,338**	**16,830**	**24,732**
Interest and taxes paid and/or received						
Interest received	6,944	7,457	8,048	4,694	5,587	4,617
Interest paid	(2,763)	(3,554)	(2,913)	(2,082)	(1,912)	(1,911)
Dividends received	80	(1)19	1	338	195	334
Taxes on income paid	(474)	(519)	(429)	(296)	(228)	(314)

Footnotes:

(1) Reclassified – Offsetting intercompany balances and including dividend received in a consolidated company.

(2) Reclassified – Sorting of the amount attributed to the sale of the credit portfolio out of changes in credit to the public.

(3) Reclassified - The separate presentation of non-cash purchase of fixed assets.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

ANNEX - Non-cash asset and liability activity during the reported year:

	2013	2012	2011
	in NIS millions		
The Bank:			
Purchase of fixed assets	25	(1)6	10
Lending of securities	538	240	(380)
Consolidated:			
Purchase of fixed assets	28	(1)12	25
Lending of securities	798	240	(178)

Footnotes:

(1) Reclassified - The separate presentation of non-cash purchase of fixed assets.

The notes to the financial statements are an integral part thereof.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 19, 2014.

B. DEFINITIONS

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt. These principles have been determined by the bank supervisory authorities in the U.S., the U.S. Securities and Exchange Commission, the U.S. Financial Accounting Standards Board and additional factor in the U.S., and which are being implemented according to a hierarchy determined by the U.S. Financial Accounting Standard FAS 168 (ASC 105-10), the "codification of accounting standards by the U.S. Financial Accounting Standards Board and the hierarchy of Generally Accepted Accounting Principles". In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, any position announced publicly by the bank supervisory authorities in the U.S., or by a team of the bank supervisory authorities in the U.S., regarding the manner of implementation of generally accepted accounting principles in the U.S., shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" - as defined in Section 1 of the Securities Law, 1968.

"Related party" – As defined in IAS-24 regarding "Related party disclosures", excluding an interested party.

"Consolidated subsidiaries" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Affiliated companies" - companies, other than consolidated subsidiaries and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated subsidiaries and affiliated companies.

"CPI" - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

"Adjusted amounts" - Amounts in nominal historical terms adjusted to the CPI of December 2003, in accordance with the provisions of Opinions Nos. 23 and 36 of the Institute of Certified Public Accountants in Israel;

"Adjusted financial reporting" - Financial reporting in adjusted values based on changes in the general purchasing power of the Israeli currency, in accordance with the provisions of Opinions of the Institute of Certified Public Accountants in Israel.

"Reported amounts" - Adjusted amounts to date of transition (December 31, 2003), together with nominal amounts which were added subsequent to date of transition, and less amounts which were deducted after that date.

"Cost" - cost in reported amounts.

"Overseas extensions " - consolidated subsidiaries and branches abroad.

1. ACCOUNTING POLICIES (CONTINUED)

"Functional currency" - the currency of the principal business environment in which the Bank operates: generally, it is the currency of the environment in which the corporation generates and spends most of the cash.

"Presentation currency" - the currency in which the financial statements are presented.

C. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

1. Principles of financial reporting

The 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), 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 following principles:

- In cases where no specific reference exists in the Standards or in interpretations of material issues or where several alternatives exist for treating a material issue, the Bank acts according to specific implementation guidelines determined by the Supervisor of Banks;
- In cases where a material issue is not addressed in the international standards or in the implementation directives of the Supervisor, the Bank treats the matter in accordance with generally accepted accounting principles in U.S. banks that specifically apply to such issues;
- In cases where reference exists in an international standard to another international standard that has been adopted by the public reporting instructions, the Bank will act in accordance with the provisions of that other standard and the related guidelines of the Supervisor of Banks;
- In cases where reference exists in an international standard to another international standard that has not been adopted by the public reporting instructions, the Bank acts in accordance with the public reporting instructions and in accordance with generally accepted accounting principles in Israel;
- In cases where an international standard includes reference to a definition of a term that is defined in the public reporting instructions, then the reference to the definition in the instructions shall replace the original reference.

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details regarding the functional currencies of banking overseas extensions, see D 1.2, below.

3. Basis of measurement

The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available for sale;
- Liabilities in respect of share based payments to be settled in cash;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in affiliated companies.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The value of non-monetary assets and capital items measured by the historical cost basis, has been adjusted to changes in the CPI until December 31, 2003, since until that date the Israeli economy had been considered a hyper-inflationary economy. Beginning with January 1, 2004, the Bank prepares its financial statements in reported amounts.

4. Use of estimates

In preparing the financial statements in accordance Israeli GAAP and 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 estimates, 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 estimates.

Upon the formation of accounting estimates applied in the preparation of financial statements, the Bank's Management is required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Bank's Management bases itself upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

5. Reclassification

Following the initial implementation of certain accounting standards and directives of the Supervisor of Banks, 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:

5.1 Presentation of other comprehensive income items. Following the initial implementation of the instructions of the Supervisor of Banks in this matter (see item 6 (1) below), the other comprehensive income items in the financial statements for the years 2011 and 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 "Statement of comprehensive income", which is presented immediately after the statement of income.

5.2 Reclassifications in the statement of income: (1) Certain adjustments required on the background of the implementation of the new format of Schedule "C" to the Management Review; (2) Classification of certain expense items from the item "Other expenses" to the item "Maintenance and depreciation of buildings and equipment".

5.3 Disclosure regarding deposits. Beginning with December 31, 2013, the Bank implements the circular of the Supervisor of Banks in the matter of disclosure regarding deposits (except for the disclosure requirement regarding deposits of institutional bodies raised in Israel, which is being implemented since January 1, 2013). Among other things, the instruction includes disclosure regarding deposits raised in Israel and abroad and disclosure of deposits according to size. The Bank implements the instruction by way of retroactive implementation. The comparative data has been reclassified accordingly.

5.4 Reclassifications in Note 18 – "Assets and liabilities according to currency and maturity periods". As from December 31, 2013, the Bank implements the instructions of the Supervisor of Banks regarding disclosure of deposits, which include, among other things, a disclosure requirement as to the contractual redemption dates of credit to the public and deposits from the public. The Bank implemented the instruction by way of retroactive implementation. The comparative data for the year 2012 have been reclassified in accordance with the new instructions.

In addition, the disclosure format in the said note has been updated in accordance with instructions determined in a circular of the Supervisor of Banks regarding this matter dated September 30, 2013. The circular updated the differentiation between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and in foreign currency. Moreover, cash flow in respect of derivative instruments settled on a net basis are to be classified into Israeli currency or into foreign currency in accordance with the currency in which settlement is made (no reporting is made of off-balance sheet amounts in respect of derivative instruments, as above). The Bank has implemented the instruction by way of retroactive implementation. The comparative data for the year 2012 have been reclassified in accordance with the new instructions.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks

As from January 1, 2013, the Bank implements accounting standards and directives as detailed in items (1) to (5) hereunder. The instruction mentioned in item (6) hereunder is being implemented as from April 1, 2013. Starting with these financial statements, the Bank implements the instructions detailed in items (7) and (8) hereunder.

(1) Instruction in the matter of "Statement of comprehensive income" (see item D 20 below);

(2) Instruction in the matter of "Setoff of assets and liabilities" (see item D 8 below);

(3) Instruction in the matter of "Disclosure of deposits" (see item 5.3 above);

(4) Certain 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 (see item D 4.2 below);

(5) A new set of International Financial Reporting Standards (IFRS) in the matter of consolidation of financial statements and related issues (see item D 2.6 below).

(6) Directive of the Supervisor of Banks regarding "Update of guidelines in the matter of housing real estate" (see item D 4.3 below).

(7) Update of the reporting to the public directives regarding the presentation of assets and liabilities according to currency and maturity periods (see Section 5.4 above).

(8) Updates concerning the Note on securities, as determined in a circular of the supervisor of Banks regarding the integration of the letters of the Supervisor of Banks in the Reporting to the Public Directives (see item D 5.8 below).

The Bank's accounting policy, as detailed in Item D below, combines the new accounting policy in respect of the implementation of the said standards and directives, and presents the manner and effect of their initial implementation, if at all.

D. ACCOUNTING POLICY APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

1. FOREIGN CURRENCY AND LINKAGE

1.1 Assets (except for investments in investee companies, buildings and equipment) and liabilities are stated in the balance sheet as follows:

- Those in foreign currency or linked thereto, are presented at representative exchange rates published by the Bank of Israel at the balance sheet date, or at a different date, in accordance with the terms of the relevant transactions.
- Those linked to the CPI or to other indices, are presented in the balance sheet according to the latest known index on the balance sheet date.
- Those optionally linked, are stated in accordance with their related terms ruling on the balance sheet date.

1.2 IAS 21, the effects of changes in foreign exchange rates:

Foreign currency transactions. Transactions in foreign currency are translated into the Bank’s relevant functional currencies and its extensions on the basis of the exchange rates ruling at dates of the transactions. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency in accordance with the exchange rate ruling on that date. The exchange rate difference in respect of financial items is the difference between the amortized cost stated in the functional currency at the beginning of the year, adjusted to the effective interest and payments during the year, and the amortized cost stated in foreign currency and translated using the year-end exchange rate.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Exchange rate differences stemming from translation to the functional currency are recognized in the statement of income, except for the following differences which are recognized in other comprehensive income, stemming from the translation of: capital financial instruments classified as available for sale (except in cases of impairment when translation differences that had been recognized in other comprehensive income are reclassified to the statement of income); hedging of cash flow, in respect of the effective part of the hedge.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions.

Exchange rate differences on translation are recognized in comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in comprehensive income, are to be reclassified to the statement of income in the period in which the profit or loss from the realization of the foreign operation is recognized.

Foreign banking extensions. Until 1994, certain foreign banking extensions had been classified as autonomous units and exchange differences on translation of their operations had been reflected directly in the equity as part of the translation adjustments reserve. Starting with 1995, in accordance with guidelines of the Supervisor of Banks, foreign banking extensions have been classified as "long-arm operations" (foreign operations the functional currency of which is identical to the bank's functional currency).

Functional currency of the Bank`s overseas extensions. As from January 1, 2011, the Bank implements IAS 21, except for the guidelines of the Standard in the matter of classification of banking extensions operating abroad as a foreign operation the functional currency thereof is different from the NIS.

According to IAS 21, in order to determine the functional currency, the banking corporation has to consider, among other things, the following factors:

- The currency that mainly affects the selling price of goods and services (as a general rule, it will be the currency in which the sale prices of goods and services are denominated and settled) and the currency of the country the competitive powers and regulation of which determine mainly the sale prices of goods and services;
- The currency that principally affect payroll costs, materials and other costs required for the supply of goods or services (as a general rule, this will be the currency in which such costs are denominated and settled);
- Other factors which may provide evidence for the functional currency of the entity, such as: the currency in which funds from financing operations are produced and the currency in which generally the proceeds from current operations are being maintained;
- Relations of the extension with the banking corporation - whether the overseas operation has a significant degree of independence, whether transactions of the extension with the banking corporation comprise a high or low rate of the overseas operations, whether the cash flows from the overseas operations have a direct effect upon the cash flows of the banking corporation and are available for transfer and whether the cash flows of the overseas operations are adequate to finance existing and anticipated liabilities of the overseas extension without additional finance being provided by the banking corporation.

Based on the examination of the said criteria, it has been determined that the functional currency of certain of the overseas extensions is not identical to the Shekel. Notwithstanding, changing the classification of an overseas banking extension into an extension in which functional currency is different than the Shekel, was conditioned in a pre-ruling by the Supervisor of Banks. Until such pre-ruling is obtained, the Bank continued to treat its overseas extensions as an overseas operation which functional currency is identical to the Shekel.

On February 14, 2012, the Supervisor of Banks published a circular letter in the matter of "The functional currency of extensions operating overseas", which included criteria determined by the Supervisor of Banks designed to determine the functional currency of a bank overseas extension. In determining the functional currency that is not NIS, a banking corporation is required to verify the existence/absence of each one of the criteria detailed below and document the results:

- The principal environment in which the extension produces and expends cash is a foreign currency environment, while the shekel operations of the extension are marginal;
- Autonomous attraction of customers by the extension – business transacted by the extension with banking corporation customers and/or parties related to them and/or parties referred to the extension by the banking corporation, is insignificant;

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The activity of the extension with the banking corporation and/or with parties related to the banking corporation is insignificant. Furthermore, there is no significant dependence of the extension on financing sources provided by the banking corporation or by parties related to the banking corporation;
- In essence, the activity of the extension is independent and is self sufficient and does not expand or complement the domestic activity of the group. Furthermore, the extension transacts its business and operations having a significant level of autonomy.

Where one of the said criteria does not significantly exist (example: business of the extension transacted with the Bank's customers is significant to the extent that it constitutes the major part of the extension's business), this would indicate that the extension should be treated as a foreign operation the functional currency of which is the shekel. In other situations, the decision will have to be made based on an examination of all the criteria.

The Bank has re-examined the classification of its overseas banking extensions based on the new criteria. In light of the new examination, the banking extension Bancorp was classified as from January 1, 2012, as foreign operations the functional currency of which is different from the shekel. The change in classification was treated by way of from now onwards as a change in the functional currency of such extension, so that currency translation differences were recognized as from January 1, 2012, in other comprehensive income and presented as part of "adjustments from translation".

1.3 The following are the representative rates of exchange and the CPI and their annual rates of change:

				Annual rate of change		
	2013	2012	2011	2013	2012	2011
CPI (in points):						
Known at balance sheet month	114.1	111.9	110.3	1.9	1.5	2.6
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.471	3.733	3.821	(7.0)	(2.3)	7.7
Euro	4.782	4.921	4.938	(2.8)	(0.4)	4.2

2. PRINCIPLES OF CONSOLIDATION AND THE IMPLEMENTATION OF THE EQUITY METHOD

2.1 Business combinations. A business combination is a transaction or another event in which the purchaser acquires control of another business or over a number of businesses. The Bank applies the "acquisition method" in respect of all business combinations.

Date of acquisition is the date on which the purchaser acquires control over the purchased entity. Control is the power to determine the financial and operational policies of a corporation in order to gain benefits from its operations. The purchaser controls the purchased entity when he is exposed or has rights to inputs that vary with his involvement in the purchased entity and he has the ability to influence such inputs by means of the power of influence he holds over the purchased entity. When examining control, actual rights held by the purchaser and by others are taken into consideration.

Business combinations that have occurred prior to January 1, 2011. In accordance with guidelines of the Supervisor of Banks, the Bank has adopted the relief determined in items C4 and C5 of IFRS 1, "Initial adoption of international financial reporting standards". Accordingly, the Bank did not apply IFRS 3 (2008) retroactively in respect of business combinations, acquisition of affiliated companies and acquisition of minority interests that had occurred prior to January 1, 2011. Therefore, with respect to acquisitions made prior to January 1, 2011, recognized goodwill and excess of cost created represent the amounts recognized in accordance with generally accepted accounting principles in Israel.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiary companies. These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

The accounting policies of the subsidiaries were changed, where necessary, in order to adjust them to the accounting policies adopted by the Bank.

Non-controlling rights in consolidated subsidiaries. These are rights representing the equity of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include therein additional components, to the extent existing, as follows: the capital component in convertible bonds of the subsidiary companies, share based payments to be settled by capital instruments of the subsidiary companies and stock options to shares of the subsidiary companies.

Non-controlling rights comprising instruments conferring ownership rights in the present and granting the owners thereof a share in the net assets in case of a liquidation (example: ordinary shares), are measured at fair value at date of the business combination. Other instruments matching the definition of non-controlling rights in consolidated subsidiaries (such as: options for ordinary shares) are measured at fair value or in accordance with other relevant IFRS rules.

Allocation of income and other comprehensive income items to shareholders. Income or losses and any component of other comprehensive income are allocated to the owners of a subsidiary company and to the non-controlling right holders in consolidated subsidiaries therein. Total income and other comprehensive income are allocated to the owners of a subsidiary company and to the non-controlling right holders in consolidated subsidiaries therein even if, as a result, the outstanding balance of the non-controlling rights in consolidated subsidiaries will be negative.

Transactions with non-controlling right holders in consolidated subsidiaries while maintaining control. Transactions with non-controlling right holders in consolidated subsidiaries while maintaining control are being treated as capital transactions. Any difference between the consideration received or paid and the change in the non-controlling rights is reflected directly in the equity.

Furthermore, upon a change in the ratio of holdings in a subsidiary company with no loss of control, the Bank reallocates the cumulative amounts recognized in other comprehensive income between the Bank's owners and the non-controlling interests holders.

2.2 Put options granted to non-controlling rights shareholders. In accordance with a letter of the Supervisor of Banks of March 18, 2012, regarding "The treatment of put options granted to non-controlling rights shareholders", the Bank implements the IFRS guidelines in the matter.

Accordingly, put options issued to non-controlling rights shareholders settled in cash or in another financial instrument (including options issued prior to January 1, 2012) have been recognized as a liability in the amount of the present value of the exercise price. In following periods, changes in the value of the option have been recognized in the statement of income by the effective interest method. Furthermore, the share of the Group in the profits of the investee company includes the share of the non-controlling rights shareholders, to whom the Group had issued the put option.

The Supervisor's letter contained a relief, whereby, for the purpose of calculating the ratio of capital to risk components, a banking corporation will include in its capital base the change in the shareholders' equity stemming from the initial implementation of the guidelines included in the letter, not later than the termination date of its existing commitments. In February 2014, the Supervisor of Banks informed ICC that it would be possible to spread the deduction from capital in respect of the PUT option until January 2018, in accordance with the treatment determined for deductions from capital by the transitional instructions of Basel III.

2.3 Investments in affiliated companies. Affiliated companies are entities in which the Bank has a material influence over their financial and operational policies, though not control.

Investments in affiliated companies are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the income or loss and in other comprehensive income of investee entities treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies relating to core banking business issues (issues in respect of which the IFRS rules have not yet been adopted by the public reporting directives) implemented by a non-financial affiliated company, and to the accounting policy as a whole applied by an affiliated company constituting a banking corporation.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss of material influence. The bank discontinues the use of the equity method as from the date on which material influence no longer exists and treats the investment as a financial asset.

On such date, the Bank measures at fair value any investment remaining in the former affiliated company and recognizes in the item "Non-interest financing income – gains or losses on investment in shares", as part of operations that are not for trading purposes, any income or loss resulting from the difference between the fair value of any remaining investment together with any consideration received for the realization of the part of the investment in the affiliated company and the stated value of the investment at that date.

Amounts that had been recognized as capital reserves within the framework of other comprehensive income, pertaining to that affiliated company are reclassified to the Statement of income or to retained earnings, in the same manner that would have been required had the affiliated company itself realized the related assets and liabilities.

Changes in rates of holdings in affiliated companies while maintaining material influence. Upon the increase in the rate of holdings in an affiliated company treated by the equity method, while maintaining the material influence, the Bank applies the acquisition method only in respect of the additional holdings percentage, the existing holdings remaining unchanged. Upon a reduction in the rate of holdings in an affiliated company treated by the equity method, while maintaining the material influence, the Bank deducts the proportionate share of its investment and recognizes an income or loss on the sale in the item "Non-interest financing income – gains or losses on investment in shares", as part of operations that are not for trading purposes. The cost of the sold rights for the purpose of computing the income or loss on the sale is based on a weighted average.

Furthermore, at that date, a proportionate part of the amounts that had been recognized as capital reserves within the framework of other comprehensive income, pertaining to that former affiliated company, are reclassified to the Statement of income or to retained earnings, in the same manner that would have been required had the former affiliate itself realized the related assets and liabilities.

2.4 Transactions eliminated upon consolidation. Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with affiliated companies were eliminated against the investment according to the rights of the Group in the affiliated companies. Unrealized losses were eliminated in the same manner in which profits have been eliminated, so long as no evidence of impairment exists.

2.5 The treatment in the Bank's stand alone financial statements. In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks.

2.6 A new set of International Financial Reporting Standards (IFRS) in the matter of consolidation of financial statements and related issues. In accordance with a circular of the Supervisor of Banks, banks are required as from January 1, 2013, to implement the mew set of standards in the matter of consolidation of financial statements and related matters, and this as adopted in the Reporting to the Public Directives. Among other, the adoption of IFRS 10 in the matter of "consolidated financial statements", with the exception of rules relating to the treatment of variable interests entities (VIE`s) which continue to be treated according to ASC 810-10. Furthermore, IAS 28 (2011) was adopted in the matter of "investments in associates companies and joint ventures" as well as IFRS 12 in the matter of "disclosure of interests in other entities", excluding the requirements included therein in relation to non-consolidated structured entities. The disclosure requirements determined in ASC 810 (FAS 167) will continue to apply to such entities, as integrated in Section 22 of the Reporting to the Public Directives with respect to disclosure regarding variable interests entities.

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.

3. The basis of recognition of income and expenses.

3.1 Financing income and expenses are included on an accrual basis, except for:

- Interest accrued on problematic debts classified as not occurring interest income debts is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Income from commission on early loan repayments, net of a proportionate part attributed to the financial capital, is included in the statement of income in equal annual installments over the remaining period of the loan or over three years from the date of early repayment, the shorter of the two periods.
- Cost of allocation of credit facilities, commissions in respect of guarantees granted by the Bank, as well as commission on financing transactions, are recognized pro-rata to the period of the transactions.

3.2 Operating commissions in respect of services granted are recognized when the right to receive the commission materializes. Commissions on financing transactions are recognized relatively to the period of the transactions.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.5 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments shall be recognized in a reported period based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.6 Other income and expenses are recognized on an accrual basis.

3.7 Sale and leaseback transactions are presented in the financial statements in accordance with IAS-17.

3.8 **Update of the definition of "Interest".** A circular of the Supervisor of Banks from December 2011, updated the definition of "interest", so as to include CPI linkage increments on interest, exchange rates differences on interest and CPI linkage increments on principal sums (a component formerly not regarded as part of interest). The instructions regarding the change in the definition of interest were implemented retroactively as from January 1, 2012 onwards. The instructions regarding the change in definition of "interest" in respect of impaired debts, were implemented in respect of debts classified as impaired as from January 1, 2012 and thereafter.

4. IMPAIRED DEBTS, CREDIT RISK AND ALLOWANCE FOR CREDIT LOSS

4.1 General

In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies, as from January 1, 2011, the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, since that date, the Bank is implementing the guidelines of the Supervisor of Banks in the matter of "Dealing with problem debts". Also, since January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of "Update of the disclosure regarding the credit quality of debts and the allowance for credit losses".

Credit to the public and other debt balances

The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under resale agreements, credit to the public, credit to governments, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, deposits with banks, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date. It should be clarified that prior to January 1, 2011, the Bank had applied different rules, according to which the balance of a debt stated in the Bank's books included the interest component accrued prior to the classification of the debt as a non-performing problematic debt. Accordingly, credit balances presented in periods prior to the period in which the Directive was initially implemented, are not comparable with credit balances reported after the initial implementation of the Directive. As to other debt balances, to which specific rules apply regarding the measurement and recognition of the provision for impairment (such as: bonds) the Bank continues to apply the same measurement rules (see item 5.7 below).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Identification and classification of impaired debts

The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt examined on a specific basis, is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. For this purpose, the Bank monitors the number of days in arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

Reinstatement of an impaired debt as an unimpaired debt

An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).
- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, shall not apply to debts classified as impaired as a result of a restructure of a troubled debt.

Reinstatement of an impaired debt as an impaired debt accruing interest

A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as a debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

A troubled debt under restructurings

A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, will be classified as troubled debts and will be assessed on a specific basis for the purpose of performing the allowance for credit losses or of an accounting write-off. In view of the fact that the debt that had been reconstructed as a troubled debt, would not be paid in accordance with its original contractual terms, the debt continues to be classified as an impaired debt even after the borrower returns to a repayment schedule according to the new terms.

Allowance for credit losses

The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses in relation to its credit portfolio. In addition, the Bank has determined procedures required to maintain an allowance at a level adequate to cover anticipated losses relating to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, unutilized credit facilities and guarantees).

The allowance covering credit losses anticipated in relation to the credit portfolio is assessed in one of two ways: "specific allowance" or "group allowance".

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 50 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

In this respect, the Bank defines a debt as collateral dependent when repayment of the debt is anticipated to be made exclusively from the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the asset held by the borrower, even though no specific pledge is registered on the asset, and everything in a situation where the borrower has no other significant, reliable and available resources for repayment of the debt.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, excluding housing loans in respect of which a minimum allowance has been computed according to the extent of arrears, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", based on a formula detailed in the provisional instruction published by the Supervisor of Banks. The formula is based on historical loss ratios in various economic sectors, as well as on actual ratios of net accounting write-offs recorded as from January 1, 2011 divided between problematic credit and non-problematic credit. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, for the purpose of determining the fair rate of allowance, the Bank takes into account additional factors, including trends in the total volume of credit and in the volume of open credit in each sector, sectorial conditions, macro-economic data, the level of risk and its trend and the effect of changes in the concentration of credit.

In accordance with guidelines of the Supervisor of Banks, the Bank continues to implement the instructions included in the said provisional directive, until updated final directives are issued in the matter of the group allowance.

For details regarding the draft directive in the matter of "group allowance for credit losses", see item E 3 below.

In accordance with guidelines specified in the provisional directive, as from January 1, 2011, the Bank does not maintain general and supplemental allowances, however it continues to compute the supplemental allowance and checks that in any event the amount of the group allowance at the end of each reporting period is not below the general and supplemental allowances that would have been computed as of that date, before the tax effect.

The required allowance in respect of off-balance sheet credit instruments is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach", with certain adjustments in cases where past experience is available at the Bank indicating realization to credit rates.

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. At date of the initial implementation of the new instruction, an amendment to the Appendix to Proper Conduct of Banking Business directive No. 314 "Proper assessment of credit risks and proper measurement of debts" entered into effect, which extends the application of calculating the allowance according to the extent of arrears, to all housing loans, with the exception of loans not repayable by periodic installments and loans financing business characteristics operations.

The Bank implements the instructions of the Supervisor of Banks in the matter of "updates of guidelines regarding residential property" (see item 4.3 below).

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Accounting write-off

The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (in most cases defined as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral. With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (in most cases, over 150 consecutive days in arrear) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income recognition

On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of income but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt which had formally undergone troubled debt reconstructing – see "Restatement of an impaired debt as an impaired debt accruing interest" above. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see item 3.1 above.

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over.

4.2 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, it is required to provide a disclosure 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.

In addition, a disclosure is 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, 2012. Certain of the new disclosure requirements regarding a troubled debt restructuring are being implemented by the Bank since January 1, 2013. With respect to new disclosures, as stated, the Bank is not required to include comparative data.

The initial implementation of the instructions had no impact, except for the updating of the disclosure format in Note 4 "Credit risk, credit to the public and allowance for credit losses".

4.3 "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 initial implementation of the instruction increased the group allowance of the Bank and of Mercantile Discount Bank, by an amount of approx. NIS 26 million.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. SECURITIES

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified into three portfolios, as follows:

(a) "Held to maturity bonds" - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) "Trading securities" - securities which are held with the intention of selling them in the short term except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. Gains or losses due to adjustments to fair value are recorded in the statement of income.

(c) "Available for sale securities" - securities not classified under the two previous categories. Securities available for sale are stated at their fair value on the balance sheet date, except for shares the fair value of which is not readily available, which are stated at cost less a provision for impairment in value not of a temporary nature which is recorded in the statement of income. Unrealized gains or losses resulting from the adjustment to fair value, net of the related tax effect, are recorded as a separate line item in the equity within the framework of other comprehensive income.

5.2 The cost of realized securities is recognized in the statement of income on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the income statement.

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the international rating of which is at least "AA".

5.5 The Bank's investment in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the income statement upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, whether the impairment of securities classified to the available-for-sale portfolio and to the held to maturity portfolio is of an other than temporary nature.

The review is based on the following considerations:

- The ratio of loss to cost/depreciated cost (while examining developments subsequent to balance sheet date);
- The period in which the fair value of the security is lower than its cost;
- The rate of yield to redemption in the case of bonds;
- The credit rating of the security, including changes in its rating;
- In the case of shares - events of reduction due to the distribution of dividends or its cancellation;
- In the case of bonds - Events of default in the payment of periodic interest in accordance with the terms of the bond, forecast of changes in the expected cash flow from the bond.
- Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The intent and ability of the Bank and its relevant subsidiary to continue holding the securities until such time that the expected recovery of the fair value of the securities occurs.
- Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates. or until redemption thereof.

The Bank recognizes impairment of a nature other than temporary, at least in each of the following cases:

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.

  "Significantly lower" –

  In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;

  In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;

  Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization.
- A security that had been sold prior to the date of publication of the financial report for the period;
- A security, which near the date of publication of the financial report for the period, is intended to be sold within a short period;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least four notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase;

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of income when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the income statement (the new cost base).

5.8 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 initial implementation and its effect. The updates as stated in the instruction were initially implemented starting with these financial statements. The comparative data was reclassified in order to adjust it to the new disclosure format. Implementation of the instruction did not have a material effect on the financial statements, except for the change in the disclosure format of the note on securities.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE TRANSACTIONS

The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of income, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.

The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of income on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the effective part of the change in the fair value of a derivative designated to hedge a cash flow risk, is initially reported in the equity (outside the statement of income) as a component of "other comprehensive income", following which, where the cash flows affect the statement of income, it is reclassified to the statement of income.

For further details see Note 20 hereunder.

7. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

As from January 1, 2011, the Bank applies the principles determined in FAS 157 (ASC 820-10), which defines fair value and determines a consistent framework for the measurement of fair value by defining techniques for the evaluation of fair value in respect of assets and liabilities, and the determination of a fair value scale and detailed implementation guidelines. Furthermore, as from January 1, 2012, the Bank implements the directive of the Supervisor of Banks in the matter of "fair value measurement", which combines in the Public Reporting Instructions the rules determined in accounting standard update ASU 2011-04 in the matter of "fair value measurement (ASU 820): amendments to achieve common fair value measurement and uniform disclosure requirements in U.S. GAAP and IFRS".

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

FAS 157 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, which are accessible to the Bank at measurement date;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

Such hierarchy requires the use of observable inputs, where this information is available. Where possible, the Bank, when making its assessments, considers observable and relevant market inputs. The volume and frequency of the transactions the size of the bid/ask spread and the extent of the adjustment required when comparing similar transactions, are all factors being considered when determining liquidity of the markets and the relevancy of observable prices in these markets.

Securities. The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most active market. In such cases, the Bank’s fair value of the investment in securities is the multiplication of the number of units by that quoted market price. Where no quoted market price is available, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk and such like).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most efficient market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

Evaluation of credit risk and nonperformance risk. The Standard requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. The Bank assesses the credit risk involved in derivative instruments in accordance with the prices of the debt instruments of the counterparty traded on an active market and with the prices of credit derivatives the basis of which is the credit quality of the counterparty, for banks and customers in respect of which credit quality indications exist through transactions on an active market, and in accordance with internal models for the forecast of the rate of credit losses in case of credit default for the rest of the population.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 21 below regarding balances and fair value assessments of financial instruments.

8. Offsetting assets and liabilities

The Bank implements the rules determined in the circular of the Supervisor of Banks dated December 12, 2012, which amended the Reporting to the Public Directives in the matter 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.

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.

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

Initial implementation and its effect. The Bank implements the provisions of the instruction by way of retroactive implementation. The said initial implementation had no material impact upon the financial statements, except for the update of the disclosure format in Note 20 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. TRANSFERS AND SERVICES RELATING TO FINANCIAL ASSETS AND SETTLEMENT OF LIABILITIES

The Bank applies the measurement and disclosure rules determined in the U.S. Financial Accounting Standard FAS 140 (ASC 860-10) "Transfers and servicing of financial assets and extinguishments of liabilities" as amended by FAS 166 "Transfers of financial assets" (ASC 860-10), for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of a financial asset shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset (or if the transferee is an entity, the only purpose of which is to engage in securitization or in asset backed financial activity, and which is prevented from pledging or exchanging the transferred financial asset - any third party holding beneficiary rights) may pledge or exchange the transferred asset (or the beneficiary rights), and no conditions exist which also restrict the transferee (or a third party who holds the beneficiary rights) from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, or subsidiary companies included in its financial statements, or its agents, do not retain effective control over the financial assets or over the beneficiary rights relating to such transferred assets.

Starting with January 1, 2012, the Bank implements the update of accounting standard ASU 2011-03 regarding "The re-examination of effective control in repurchase transactions", which comprises an update of the rules stated in FAS 166 (ASC 860). In accordance with the update, evaluation of the existence of effective control is focused on the contractual rights and the contractual liabilities of the transferor, therefore the following are not taken into consideration: (1) criterion requiring that the transferor will have the ability to purchase the transferred securities also in the case of default of the transferee, and (2) guidelines regarding the requirement of collateral with respect to the said criterion.

In transactions involving the transfer of financial assets, the Bank determines that effective control over the assets remains with the transferor (and therefore the transfer of assets shall be treated as a secured debt) if all the following conditions are fulfilled:

- The assets to be repurchased or redeemed are identical or identical in substance to the transferred assets;
- The agreement provides for the repurchase of the assets or for their redemption prior to the date of repayment, at a determined price or at a determinable price; and
- The agreement was signed simultaneously with the transfer.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights. Participating rights have to meet the following criteria: the right has to represent proportionate rights in relation to the total financial asset; all cash flows receivable from the asset are distributed among the participating rights proportionally to their interest in the asset; the rights are not subordinated to other rights in the asset; no right of return of the asset to the transferor or to other participating right holders exists (except in cases of misrepresentation or violation of commitments, ongoing contractual obligations for the service of the financial asset as a whole and the management of the transfer agreement, and contractual obligations to share in the setoff of any benefits received by any holder of participating rights); the transferor and also the holder of participating rights have no right to pledge or exchange the financial asset in entirety, except where all the holders of the participating rights agree to pledge or exchange the financial asset in its entirety.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. Where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continue to be stated in the Bank's balance sheet and the proceeds of sale are recognized as a liability of the Bank.

In view of the above, securities sold under repurchase terms or purchased under resale terms, securities loaned or borrowed, as well as other financial instruments transferred or received by the Bank, in which the Bank retained control over the transferred asset or did not acquire control over the asset received, are treated as a collateralized debt. Financial instruments transferred under such transactions are measured according to the same measurement rules applying prior to their transfer. Namely, such securities are not removed from the balance sheet, against which a deposit is recognized secured by a pledge on the said securities, which are stated in the item "Securities loaned or sold under repurchase agreements". Securities received under such transactions, are stated according to the cash amount paid by the Bank in the item "Securities borrowed or purchased under resale agreements".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank monitors the fair value of securities borrowed or loaned and of securities transferred under repurchase and resale agreements, and where necessary additional collateral is sought.

In accordance with the public reporting instructions, transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if and only if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under resale agreements terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the item "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the item "Securities loaned or sold under repurchase agreements". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the item "Securities borrowed or purchased under resale agreements".

10. FIXED ASSETS (BUILDINGS AND EQUIPMENT)

Recognition and measurement. Fixed asset items are measured at cost less depreciation and losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct payroll and any additional costs which may be attributable directly to the bringing of the asset to the location and condition in which it could function in the manner intended by Management.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see item 12 hereunder.

Where substantial parts of fixed asset items have different life spans, they are treated as separate items of the fixed assets.

Profit or loss on the disposal of a fixed asset item are determined by comparing the proceeds from disposal of the asset to its stated value, and are recognized, net, in the item "Other income" in the statement of income.

Subsequent costs. The cost of replacement of a part of a fixed asset item is recognized as part of the book value of that item if it is anticipated that the future economic benefits inherent in the replaced part will flow to the Bank and if its cost is reliably measurable. The stated value of the replaced part is deducted. Current maintenance costs of fixed asset items are charged to the Statement of income as incurred.

Depreciation. Depreciation is a methodical allocation of the depreciable amount of an asset over its useful life span. The depreciable amount is the cost of the asset, or another amount replacing cost, less the residual value of the asset.

Depreciation is charged to the Statement of income by the straight-line method over the assessed useful life span of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Leased assets are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not depreciated.

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined at the end of each financial year and adjusted where required.

For details as to the depreciation rates in the current period and the comparative periods, see Note 7 below.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. LEASES

Leases, including the lease of land from the Israel Land Administration or from other third parties in respect of which the Group essentially bears all risk and yield pertaining to the asset, are classified as financial leases. Upon initial recognition, the leased assets are measured at an amount equal to the lower of its fair value or the present value of the future minimum lease fees. Future payments to the Israel Land Administration in respect of the exercise of an option for extension of the lease period are not recognized as part of the asset and the related liability, since they constitute conditional lease fees derived from the fair value of the land at date of the future renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accepted accounting policy in respect of such an asset.

All other leases are classified as operational leases, and the leased assets are not recognized in the balance sheet of the Group.

12. INTANGIBLE ASSETS

Goodwill. For information regarding the measurement of goodwill upon initial recognition thereof, see item D 2.1 above. In following periods, goodwill is measured at cost less accumulated impairment losses.

Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

Costs related to the development of software or its modification for own use are capitalized only if: it is reliably possible to measure the development costs; the software is technologically and commercially feasible, future economic benefits are anticipated; the Bank has the intention and adequate resources to complete the development and to use the software. Costs recognized as an intangible asset include the direct cost of materials and payroll. These costs are measured at cost less accumulated depreciation and impairment losses. Overhead costs that cannot be directly attributed to the development of the software and research costs are recognized as an expense as incurred (software costs are presented as part of fixed assets. (See item 10 above).

Amortization. Amortization is charged to the Statement of income by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

Goodwill and intangible assets of indeterminate life span are not amortized systematically but are examined yearly for examining impairment.

Intangible assets created within the Bank (such as: software in the course of development) are not amortized systematically so long as they are not ready for use. Accordingly, impairment of such intangible assets is reviewed once a year, until they become available for use.

The development costs of the core computer system (Ofek Project) are being amortized over seven years.

Subsequent costs. Subsequent costs are recognized as an intangible asset only when they enhance the future economic benefits inherent in the asset in respect of which they had been incurred. Other costs, including goodwill related costs or costs related to independently developed brands are charged to the Statement of income as incurred.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS The stated value of the Bank's non-financial assets, excluding deferred tax assets and including investments treated by the equity method, is examined in order to determine whether signs of impairment exist. If such signs do exist, an assessment is made of the recoverable value amount of the asset. In periods following the initial recognition date, an assessment is made once a year, at a determined date for each asset, of the recoverable value amount of intangible assets having an indeterminate lifespan or which are not available for use or at more frequent dates if signs of impairment exist. The recoverable value amount of an asset or of a cash generating unit is the higher of its value in use or the net selling price (fair value, less selling expenses).

Loss on impairment of goodwill may not be reversed. As regards other assets, impairment losses recognized in prior periods are re-examined at each reporting date in order to determine whether there are signs for the reduction in the loss or for its nonexistence. A loss on impairment may be reversed in case of changes in the assessment used to determine the recoverable value amount, on condition that the stated value of the asset after reversal of the impairment loss does not exceed the stated value, less depreciation or amortization, that would have been determined had an impairment loss not been recognized.

Impairment of costs of internal development of computer software. In addition to the signs for examining the existence of impairment specified in IAS 36, "impairment of assets", examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, it is required to examine impairment in accordance with the rules of IAS 36, "Impairment of assets".

Investment in affiliated companies. The investment in an affiliated company is tested for impairment, where objective evidence exists that indicates impairment in accordance with IAS 39 "Financial instruments - recognition and measurement", and in accordance with decision 1-4 of the Securities Authority "Guidelines for examining the need to provide for impairment of fixed investments". Goodwill comprising part of the investment in an affiliated company is not recognized as a separate asset and therefore is not tested separately for impairment. Impairment is tested in respect of the investment as a whole. Where objective evidence exists that indicates a possible impairment of the investment, the Bank assesses the recoverable value amount of the investment, which is the higher of the value in use and the net selling price of the investment.

In determining the value in use of the investment in an affiliated company, the Bank assesses its share in the present value of the future cash flows anticipated to be produced by the affiliated company, including cash flows from the operations of the affiliated company and the proceeds of final realization of the investment, or the present value of futures cash flows anticipated to be derived from dividends to be received and from the final realization.

Loss on impairment is recognized when the stated value of the investment, after applying the equity method, exceeds the recoverable value amount, and is recognized in the item "Bank's share in income (loss) of affiliated companies" in the statement of income. The loss on impairment is not allocated to any particular asset. Loss on impairment may be reversed if and only if changes have occurred in the assessments used to determine the recoverable value amount of the investment since the date on which a loss on impairment had been recognized. The stated value of the investment, after reversal of the impairment loss, shall not exceed the stated value of the investment that would have been determined by the equity method had no impairment loss been recognized. The reversal of an impairment loss is recognized in the item "Bank's share in income (loss) of affiliated companies".

14. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION. Non-current assets (or realization groups comprising assets and liabilities) expected to be realized through a sale or distribution and not by way of continued use (excluding assets foreclosed in respect of impaired debts), are classified as assets held for sale if not highly expected to be recovered mainly by means of a sale transaction and not by a continued use. This applies also where the Bank is committed to the planning of a sale involving the loss of control over a subsidiary company, irrespective of whether the Bank remains with non-controlling rights in consolidated subsidiaries in the former subsidiary subsequent to the sale.

Immediately prior to the classification of the assets as held for sale or distribution, the assets (or the components of the groups intended for disposal) are measured according to the Bank's accounting policy. Subsequently, the assets (or the group intended for disposal) are measured according to the lower of the stated value or the fair value, net of selling expenses.

In following periods, depreciable assets classified as held for sale or distribution are no longer depreciated periodically, and investments in affiliated companies held for sale are no longer treated by the equity method.

A discontinued operation is a component of the banking corporation that had been disposed of or classified as held for sale, which: (a) representing a line of business, or a geographical region of operations, which is significant and separate, or (b) comprises a part of a single coordinated plan to dispose of a separate major line of business or a geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale. A discontinued operation is stated separately in the statement of income as from date of its realization or from the date of classification as held for sale, including the respective comparable data, and in the balance sheet.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. EMPLOYEE RIGHTS

15.1 Liabilities in respect of employee rights are covered by appropriate provisions. For further details see Note 16 hereunder.

15.2 The subsidiary IDB New York adopted EITF Issue No. 06-04, "Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements", as of January 1, 2008. The Task Force reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with FAS 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee.

15.3 **Guidelines and clarifications regarding "strengthening of internal control over financial reporting of employee rights".** The guidelines from March 2011 refer principally to aspects of strengthening the internal control over financial reporting of this subject. However, one aspect comprises an accounting guideline, viz., voluntary retirement plan and non-contractual severance payments. A banking corporation that anticipates the payment to groups of employees of benefits in excess of contractual obligations, has to take into account in its actuarial computations the ratio of employees who are expected to retire (including employees expected to retire under voluntary retirement plan or upon obtaining other beneficial terms) and the benefits to which they will be entitled to upon retirement. The guidelines include quantitative yardsticks, which, where these exist, the banking corporation is required to take into account the additional cost in this respect, based on an actuarial computation.

The liability for payment of severance pay to such group of employees shall be presented in the financial statements at the higher of the amount of liability based on an actuarial computation, taking into account the additional cost expected in respect of the said benefits, and the amount of liability computed by multiplying the monthly salary of the employee by the number of years of employment, as required by Opinion No. 20 of the Institute of Certified Public Accountants in Israel.

The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank’s Management (see hereunder).

The computation is based also on the average retirement rates, according to age groups, in accordance with the actual retirement rates in the years 2004-2010. In view of the scope of natural retirement anticipated in the years 2017-2027, it had been assumed that the rate of voluntary retirement in these years will be 2% per year. The computation based on retirement rates has been applied retroactively.

The limitations determined by the Management, which have been implemented as from the financial statements as of June 30, 2011, are as follows:

- The retirement of employees under preferred terms will not be allowed during the period of five years following the 2011 retirement plan becoming effective (see Note 16 below) except for exceptional cases (see below);
- The minimum age for retirement under preferred terms is 50;
- The creation of a special fund in the amount of NIS 50 million, for exceptional retirement cases, for that group of employees, who under the determined limitations will not be entitle to retirement under preferred terms (as of December 31, 2012, the balance of the special fund amounted to NIS 70 million; as of December 31, 2013, the balance of the special fund amounted to NIS 60 million).

16. SHARE BASED PAYMENT

The fair value at date of granting the share based payments to officers is charged as a payroll expense concurrently with the increase in the share capital over the period in which unconditional entitlement to the awards is obtained. The amount charged as an expense in respect of share based payments conditional upon vesting terms being service terms or performance terms that differ from market terms, is adjusted to reflect the number of awards expected to be vested. For share based payments that are conditional upon terms that are not vesting terms, or upon vesting terms comprising performance terms representing market terms, the Bank takes into consideration these terms in assessing the fair value of the capital instruments granted. Therefore, the Bank recognizes an expense in respect of such awards irrespective of the existence of these terms.

The fair value of the amount due to officers in respect of rights to appreciation in value of shares settled in cash ("phantom options") is charged as an expense against a parallel increase in liabilities over the period in which unconditional rights for payment are obtained. The liability is remeasured at each reporting date until final settlement. Any change in fair value of the liability is charged as a payroll expense in the Statement of income.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17. CONTINGENT LIABILITIES

The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard SFAS-5 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.

2) Reasonably possible - probability of over 20% and up to and including 70%.

3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 19 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The financial statements include appropriate provisions in accordance with generally accepted accounting principles and the estimates of the Managements of the Bank and of its subsidiaries, based on opinions of their legal Counsels.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to the claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome may differ from assessment conducted prior to filing of the claim.

18. TAXES ON INCOME

The Bank and its consolidated subsidiaries use the tax allocation method with respect to timing differences in the recognition for tax purposes of certain income and expenses.

Deferred taxes have been calculated according to the "liability" method, at tax rates expected to be applicable during the period in which the deferred taxes are realized, based on laws in force at the balance sheet date.

The realization of deferred taxes receivable is contingent upon the future existence of taxable income. Management believes that such deferred tax assets will be realizable in the future.

Retained earnings of certain investee companies may be subject to additional taxes if and when distributed as cash dividends. With respect to consolidated subsidiaries - when a dividend distribution is not expected in the foreseeable future - no provision for taxes has been recorded. With respect to affiliated companies - a provision for taxes on income was recorded if an additional tax liability is likely to arise due to the distribution of dividend.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Profits from the future sale of investments in shares of investee companies may attract additional taxes. The provision for deferred taxes does not include taxes relating to the sale of investments in investee companies as long as the supposition of the ongoing holding of the investment exists.

The provision for taxes on income of the Bank and its consolidated subsidiaries which are financial institutions, for the purposes of Value Added Tax, includes profit tax levied on income as stipulated in the Value Added Tax Law. Value Added Tax levied on payroll of financial institutions is included in the statement of income under the item "Salaries and related expenses".

Income taxes include current and deferred taxes. Current and deferred taxes are recognized in the statement of income, unless the taxes stem from business combinations, or are recognized directly in shareholders' equity to the extent that they stem from items recognized directly in equity.

A deferred tax asset in respect of carry-forward losses, tax benefits and deductible temporary differences, is recognized in the books when positive income is more likely than not expected to exist in the future, against which such deferred taxes might be utilized. Deferred tax assets are examined at each reporting date, and if found that the related tax benefits are not expected to be realized in the future, the tax assets are written off.

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Setoff of deferred tax assets and liabilities. The Bank offsets deferred tax assets against deferred tax liabilities where a legal and enforceable right exists for the setoff of current tax assets and liabilities that relate to the same taxable income, which is taxed by the same tax authority in respect of that assessed entity.

Intercompany transactions. Deferred tax in respect of intercompany transactions in the consolidated financial statements is recognized according to the tax rate applying to the purchasing company.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of earnings involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

19. EARNINGS PER SHARE

The Bank presents basic and fully diluted earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period. The fully diluted earnings per share is determined by adjusting the earnings or loss attributed to the holders of the ordinary shares and by adjusting the weighted average number of ordinary shares outstanding in respect of the effect of all potentially diluting ordinary shares, which include share option warrants granted to employees.

20. 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 33 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 item C 5.1 above.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. SEGMENT REPORTING

Segment of operation is defined in international standards as a component of a banking corporation engaged in operations from which it may generate income and incur expenses; the results of its operations are being examined on a regular basis by the Management and the Board of Directors in order to take decisions regarding the allocation of resources and evaluation of its performance; and also separate financial data exists in its respect. Division into segments and the related reporting outline have been set in provisions and directives of the Supervisor of Banks. For further information, see Note 31 below.

22. AMORTIZATION OF DEFERRED EXPENSES

Bond and subordinated capital notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

23. DEBTORS AND CREDITORS REGARDING CREDIT CARD ACTIVITY

At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.

24. "Related party disclosures"

IAS 24 regarding "Related party disclosures" determines the disclosure requirements with respect to relations with a related party as well as to transactions and outstanding balances with related parties.

In addition, disclosure is required regarding the compensation paid to key management personnel. These are defined as persons having authority and responsibility for the planning of the entity's operations, for the direct or indirect direction and control thereof, including any Director (whether active or inactive) of the entity.

25. Transactions with controlling shareholders. In accordance with the directives of the Supervisor of Banks, the Bank implements generally accepted accounting principles in the U.S. as regards the accounting treatment of transactions between a banking corporation and its controlling shareholder and between a company controlled by the banking corporation. As regards situations where the said principles do not address a method of treatment, the Bank implements, in accordance with the instructions, the principles determined in Standard No. 23 of the Israeli Accounting Standards Board as regards "the accounting treatment of transactions between an entity and the controlling shareholder therein", this consistently with the adoption principles of the international financial reporting standards as regards subjects that are not part of the core banking business.

Assets and liabilities involved in the transaction with the controlling shareholder are measured at fair value at date of the transaction. Due to the fact that the transaction is of a capital nature, the difference between the fair value and the consideration for the transaction is recognized in shareholders' equity.

Accepting a liability or a waiver. The difference between the fair value of the liability and its book value at date of settlement is recorded as a profit or loss. The difference between the fair value of the liability at date of settlement and the determined consideration is recorded in the equity. In the case of a waiver, the fair value of the waived liability is recorded in the equity.

Indemnification. The amount of the indemnification is recognized in a capital reserve.

Loans, including deposits. At date of initial recognition, the loan granted to a controlling shareholder or a deposit received from a controlling shareholder, are presented in the financial statements at their fair value as an asset or liability, as the case may be. The difference between the amount of the loan granted or of the deposit received and their fair value at date of initial recognition is recognized in shareholders' equity.

In periods following the initial recognition date, the said loan or deposit are stated in the financial statements at their written down cost, using the effective interest method, except for cases where according to generally accepted accounting principles they are stated at fair value.

26. Capitalization of credit costs

The instructions of the Supervisor of Banks clarify that a banking corporation shall not capitalize credit costs without having first determined clear policy, procedures and controls as regards the criteria for recognizing qualified assets and for capitalized credit costs. Accordingly, the Bank does not capitalize credit costs to a qualified asset.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

1. **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 – The Standards in these matters have been gradually adopted during the years 2011 and 2012 except for IAS 19 regarding "Employee benefits (for details regarding the draft instruction in the matter of adoption of U.S. accounting principles as regards employee rights, see item 5 below)

2. **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.

   A circular letter dated July 25, 2012, stated that the instructions in this respect shall be implemented as from January 1, 2014, and thereafter.

   A Questions and Answers file was published in October 2013, in the matter of non-nonrefundable fees and other costs, which states certain guidelines and clarifications with respect to the manner of implementation of the Standard. 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.

   It has been further clarified that a banking corporation shall not be permitted to concurrently defer internal costs incurred in the creation of loans without the prior approval of the financial reporting unit of the Supervisor of Banks.

   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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. **Group allowance for credit losses.** On July 18, 2013, a draft in the matter of "group allowance for credit losses" was submitted for discussion of the Advisory Committee. The draft extends the validity of the provisional instruction in the matter of computation of the group allowance for credit losses, based on segmentation according to economic sectors, it states guidelines and clarifications as to the manner of computing the rate of past losses and determines comprehensive requirements regarding the inclusion in the allowance coefficient of adjustments in respect of environmental factors. Furthermore, the draft enlarges the documentation requirements supporting the group allowance coefficient and the overall fairness of the allowance and the reporting to Management and the Board of Directors.

   The expected effect regarding the implementation of the guidelines applying to the computation of the rate of past credit losses shall be treated by way of a change in assessment and shall be charged to the statement of income.

   According to the draft, the time-table for the implementation of the new instructions would be graded. The date of initial implementation has not yet been finally determined.

   The Bank is preparing for the implementation of the 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.

4. **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 update of U.S. Accounting Standard ASU 2013-02.

   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 January 1, 2014. Implementation of these instructions is not expected to have a material effect, except for the presentation effect on the Note on accumulated other comprehensive income (loss).

5. **Draft in the matter of the adoption of U.S. accounting principles as regards employee rights.** The Supervisor of Banks issued on January 30, 2014, a draft in this matter. The draft updates the recognition, measurement and disclosure requirements in the matter of employee benefits, included in the reporting to public instructions, in accordance with accounting principles accepted by U.S. banks. This draft includes certain updates of the reporting to public instructions, but does not include all the updates required to the instructions following the adoption of the said principles. These matters, including additional clarifications, if required, will be dealt with separately.

   The draft states that the amendments to the reporting to public instructions shall apply as from January 1, 2015, whereupon its initial implementation, a bank shall retroactively restate the comparative data for periods beginning on January 1, 2013 and thereafter, in order to comply with the provisions of the said principles.

   Among other things, the draft states that:

   - The discount rate for computing the liabilities in respect of employees rights, shall be based on the market return on Israeli government bonds. Following this, the provisional instruction included in the existing instructions, determining the discount rate for computing the provisions for employee rights, will be abolished.
   - A banking corporation shall implement the accounting principles accepted by U.S. banks with respect to share based payments as stated in ASC 718 – Compensation – Stock compensation.

   In accordance with the draft published by the Supervisor of Banks, it is required to, at least, include in its financial statements for 2013, a disclosure of an estimate of the quantitative effect on the equity of the computation of the liability in respect of employee rights, using discount rates based on market returns at the reporting date on Israeli government bonds.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank estimates that the expected effect on its equity at December 31, 2013, of only the change in the discount rate amounts to NIS 865 million. It is emphasized that the adoption of the U.S. accounting principles in the matter of employee rights may have additional implications on the Bank, including implications on its equity. The effect mentioned above does not include such additional implications, and reflects solely the effect of the use of discount rates, as stated above.

2. CASH AND DEPOSITS WITH BANKS[1]

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Cash and deposits with central banks	19,545	19,589	16,165	13,490
Deposits with commercial banks	5,774	4,492	4,031	4,041
Deposits with specialized banking institutions	-	19	-	14
Total cash and deposits with banks	**(2)25,319**	**24,100**	**20,196**	**17,545**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	23,765	22,265	19,338	16,830

Footnote:
(1) See Note 15 D, F, I, L for pledges.
Not including balances classified as assets and liabilities held for sale – see Notes 8A.
Not including balances classified as assets and liabilities held for sale, in the amount of NIS 1,659 million – see Notes 8A.

3. SECURITIES[1]

A. Composition of this item - consolidated

	December 31,2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	3,738	3,738	278	-	4,016
Of Israeli financial institutions	86	86	5	-	91
Of foreign financial institutions	64	64	1	3	62
Mortgage-backed-securities or Assets - backed-securities	1,298	1,298	20	41	1,277
Of others abroad[7]	1,988	1,988	61	71	1,978
Total held-to-maturity bonds	**7,174**	**(3)7,174**	**365**	**115**	**7,424**

3. SECURITIES[1] (CONTINUED)

A. Composition of this item – consolidated (continued)

	December 31,2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value(2)
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	19,932	19,516	416	-	19,932
Of foreign governments	331	342	3	14	331
Of Israeli financial institutions	628	608	20	-	628
Of foreign financial institutions	2,748	2,854	47	153	2,748
Mortgage-backed-securities or Assets - backed-securities '	6,724	6,900	24	200	6,724
Of others in Israel	693	659	34	-	693
Of others abroad(8)	52	61	-	9	52
Total bonds	31,108	30,940	544	376	(3)31,108
Shares	852	838	15	1	(5)852
Total available-for-sale securities	**31,960**	**31,778**	**(4)559**	**(4)377**	**31,960**

	December 31,2013				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value(2)
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	2,019	2,020	2	3	2,019
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	2	2	-	-	2
Of foreign financial institutions	9	9	-	-	9
Mortgage-backed-securities or Assets - backed-securities '	50	52	-	2	50
Of others in Israel	89	88	1	-	89
Of others abroad	5	6	-	1	5
Total bonds	2,178	2,181	3	6	2,178
Shares	13	14	1	2	13
Total trading securities	**2,191**	**2,195**	**(6)4**	**(6)8**	**2,191**
Total securities(9)	**41,325**	**41,147**	**928**	**500**	**41,575**

Footnotes:

(1) See Note 15 for pledges.

(2) 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.

(3) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 837 million (approx. US$ 241 million) and from the available for sale portfolio with a market value of NIS 3,475 million (approx. US$ 1,001 million).

(4) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 751 million.

(6) Recorded in the statement of income.

(7) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 1,971 million (book value).

(8) Including U.S. Government agencies, in an amount of NIS 52 million (book value).

(9) Excluding balances classified as assets held for sale – see Note 8A.

3. SECURITIES[1] (CONTINUED)

A. Composition of this item - consolidated (continued)

	December 31,2012				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
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[7]	2,026	2,026	143	2	2,167
Total held-to-maturity bonds	**6,988**	**[3]6,988**	**454**	**6**	**7,436**

	December 31,2012				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
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[8]	74	76	-	2	74
Total bonds	35,356	34,800	811	255	[3]35,356
Shares	704	703	1	-	[5]704
Total available-for-sale securities	**36,060**	**35,503**	**[4]812**	**[4]255**	**36,060**

For footnotes see next page.

3. SECURITIES[1] (CONTINUED)

A. Composition of this item – consolidated (continued)

	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(2)
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
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**	(6)**7**	(6)**22**	**2,953**
Total securities	**46,001**	**45,459**	**1,273**	**283**	**46,449**

Footnotes:
(1) See Note 15 for pledges.
(2) 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.
(3) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 1,250 million (approx. US$ 335 million) and from the available for sale portfolio with a market value of NIS 5,238 million (approx. US$ 1,403 million).
(4) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".
(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 645 million.
(6) Recorded in the statement of income.
(7) 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).
(8) Including U.S. Government agencies, in amount of NIS 64 million (book value).

For details as to the results of investment activity in bonds and shares, see Notes 23 and 24, respectively.

B. Composition of this item – the Bank

	December 31,2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(2)
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	3,526	3,526	265	-	3,791
Total held-to-maturity bonds and loans	**3,526**	**3,526**	**265**	**-**	**3,791**

For footnotes see next page.

3. SECURITIES[1] (CONTINUED)

B. Composition of this item – the Bank (continued)

	December 31,2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	14,940	14,615	325	*-	14,940
Of foreign governments	172	169	3	-	172
Of Israeli financial institutions	110	103	7	*-	110
Of foreign financial institutions	1,487	1,450	37	*-	1,487
Of others in Israel	341	324	17	*-	341
Total bonds and loans	**17,050**	**16,661**	**389**	**-**	**17,050**
Shares	5	5	-	*-	[4]5
Total available-for-sale securities	**17,055**	**16,666**	**[3]389**	**-**	**17,055**

	December 31,2013				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	1,956	1,958	1	3	1,956
Of others in Israel	74	73	1	-	74
Total bonds and loans	**2,030**	**2,031**	**2**	**3**	**2,030**
Shares	1	3	-	2	1
Total trading securities	**2,031**	**2,034**	**[5]2**	**[5]5**	**2,031**
Total securities	**22,612**	**22,226**	**656**	**5**	**22,877**

*Loss amount lower then NIS 1 million.

Footnotes:

(1) See Note 15 for pledges.

(2) 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.

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of approx. NIS 5 million.

(5) Recorded in the statement of income.

3. SECURITIES[1] (CONTINUED)

B. Composition of this item – the Bank

	December 31,2012				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	3,038	3,038	248	-	3,286
Total held-to-maturity bonds and loans	**3,038**	**3,038**	**248**	**-**	**3,286**

	December 31,2012				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	16,513	16,049	472	8	16,513
Of foreign governments	240	234	6	-	240
Of Israeli financial institutions	103	97	6	-	103
Of foreign financial institutions	702	672	30	-	702
Of others in Israel	243	231	13	1	243
Total bonds and loans	**17,801**	**17,283**	**527**	**9**	**17,801**
Shares	4	4	-	-	[4]4
Total available-for-sale securities	**17,805**	**17,287**	**[3]527**	**[3]9**	**17,805**

For footnotes see next page,

3. SECURITIES[1] (CONTINUED)

B. Composition of this item - the Bank (continued)

	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[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	2,759	2,753	6	-	2,759
Of Israeli financial institutions	6	6	-	-	6
Of foreign financial institutions	15	31	-	16	15
Total bonds and loans	**2,780**	**2,790**	**6**	**16**	**2,780**
Shares	1	3	-	2	1
Total trading securities	**2,781**	**2,793**	**(5)6**	**(5)18**	**2,781**
Total securities	**23,624**	**23,118**	**781**	**27**	**23,872**

Footnotes:
(1) See Note 15 for pledges.
(2) 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.
(3) Included in shareholders' equity in the item "Adjustments for presentation of available-for-sale securities at fair value".
(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of approx. NIS 4 million.
(5) Recorded in the statement of income.

For details as to the results of investment activity in bonds and shares, see Notes 23 and 24, respectively.

3. SECURITIES[1] (CONTINUED)

C. Amortized cost and unrealized losses, according to the length of the period and rate of impairment of held-to-maturity bonds which are in an unrealized loss position - consolidated

	December 31,2013							
	less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions				In NIS millions			
Held-to-maturity bonds:								
Bonds and loans:								
Of foreign financial institutions	-	-	-	-	31	3	-	3
Mortgage-backed-securities and Assets - backed-securities	777	33	-	33	219	8	-	8
Of others abroad	696	62	-	62	93	9	-	9
Total held-to-maturity bonds	**1,473**	**95**	**-**	**95**	**343**	**20**	**-**	**20**

	December 31,2012							
	less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions				In NIS millions			
Held-to-maturity bonds:								
Bonds and loans:								
Of foreign financial institutions	34	2	-	2	-	-	-	-
Mortgage-backed-securities and Assets - backed-securities	230	2	-	2	-	-	-	-
Of others abroad	200	2	-	2	6	*-	-	-
Total held-to-maturity bonds	**464**	**6**	**-**	**6**	**6**	**-**	**-**	**-**

*Loss amount lower then NIS 1 million.

3. SECURITIES[1] (CONTINUED)

D. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale securities which are in an unrealized loss position- consolidated

	December 31,2013							
	less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions				In NIS millions			
Available for sale securities:								
Bonds and bills:								
Of the Israeli Government	98	*-	-	-	-	-	-	-
Of foreign governments	160	14	-	14	-	-	-	-
Of foreign financial institutions	95	*-	-	-	844	106	47	153
Mortgage-backed-securities and Assets - backed-securities	4,195	153	-	153	1,176	47	-	47
Of others in Israel	13	*-	-	-	7	*-	-	-
Of others abroad	52	8	1	9	-	-	-	-
Total bonds	4,613	175	1	176	2,027	153	47	200
Shares	15	1	-	1	-	-	-	-
Total available-for-sale securities	**4,628**	**176**	**1**	**177**	**2,027**	**153**	**47**	**200**

	December 31,2012							
	less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions				In NIS millions			
Available for sale securities:								
Bonds and bills:								
Of the Israeli Government	494	*-	-	-	2,876	8	-	8
Of foreign governments	172	*-	-	-	-	-	-	-
Of foreign financial institutions	188	3	-	3	1,212	96	79	175
Mortgage-backed-securities and Assets - backed-securities	3,910	51	-	51	437	13	-	13
Of others in Israel	279	2	-	2	35	1	-	1
Of others abroad	76	2	-	2	-	-	-	-
Total bonds	5,119	58	-	58	4,560	118	79	197
Total available-for-sale securities	**5,119**	**58**	**-**	**58**	**4,560**	**118**	**79**	**197**

*Loss amount lower then NIS 1 million.

3. SECURITIES[1] (CONTINUED)

E. Further details regarding mortgage and asset backed securities, on a consolidated basis. The Bank's securities portfolio as of December 31, 2013, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB New York.

Mortgage-backed Securities - MBS.A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

In accordance with the IDBNY Treasury Management and Asset-Liability Policy, investments in MBSs, excluding GNMAs, are limited to 75% of the total investment portfolio. The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae, a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time.

As a result, the investor's have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

3. SECURITIES[1] (CONTINUED)

F. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

	December 31,2013			
	Amortized cost	Unrealized gains from adjustment to fair value[1]	Unrealized 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	288	1	4	285
Securities issued by FHLMC and FNMA	2,622	15	66	2,571
Total mortgage-backed pass-through securities	**2,910**	**16**	**70**	**2,856**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,971	8	130	3,849
Other mortgage-backed securities	19	-	*-	19
Total available-for-sale other mortgage-backed securities	**3,990**	**8**	**130**	**3,868**
Total available-for-sale MBS securities	**6,900**	**24**	**200**	**6,724**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	52	3	-	55
Securities issued by FHLMC and FNMA	41	2	-	43
Total mortgage-backed pass-through securities	**93**	**5**	**-**	**98**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,161	7	41	1,127
Other mortgage-backed securities	44	8	-	52
Total held-to-maturity other mortgage-backed securities	**1,205**	**15**	**41**	**1,179**
Total held-to-maturity MBS securities	**1,298**	**20**	**41**	**1,277**
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	51	-	2	49
Total mortgage-backed trading securities (MBS)	**52**	**-**	**2**	**50**
Total mortgage-backed securities (MBS)	**8,250**	**44**	**243**	**8,051**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available sale securities-Total other cumulative income.

3. SECURITIES (CONTINUED)

F. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

	December 31,2012			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized 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:				
Bonds of the CLO type	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.

3. SECURITIES (CONTINUED)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

Additional details regarding mortgage and asset backed securities in unrealized loss position

	December 31, 2013			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities				
Securities guaranteed by GNMA	164	4	-	-
Securities issued by FHLMC and FNMA	1,966	66	-	-
Total mortgage-backed pass-through securities	**2,130**	**70**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,046	83	1,176	47
Other MBS securities	19	*-	-	-
Total other mortgage-backed securities	**2,065**	**83**	**1,176**	**47**
Total available-for-sale MBS securities	**4,195**	**153**	**1,176**	**47**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	743	34	211	7
Total other mortgage-backed securities	**743**	**34**	**211**	**7**
Total held-to-maturity MBS securities	**743**	**34**	**211**	**7**
Trading securities:				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	41	2	2	*-
Total mortgage-backed trading securities (MBS)	**41**	**2**	**2**	***-**
Total mortgage-backed securities (MBS)	**4,979**	**189**	**1,389**	**54**

*Loss amount lower then NIS 1 million.

3. SECURITIES (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):

	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)				
Bonds of the CLO type	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. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 4,121 million (December 31, 2012: NIS 4,075 million). The balance of the said bonds included as of December 31, 2013, unrealized losses in the amount of NIS 162 million (December 31, 2012: NIS 183 million).

I. Most of the unrealized losses as at December 31, 2013 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of 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 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 bonds, may not be until maturity), the Bank and the relevant consolidated subsidiaries do not consider the impairment in value of these investments to be other than temporarily impaired at December 31, 2013 except for certain securities, in respect of which a provision for impairment in value has been included.

3. SECURITIES[1] (CONTINUED)

In 2013, an other than temporary in nature write down was recorded on several securities, in the amount of US$10 million (NIS 33 million) [2012: US$8 million (NIS 28 million)]. For details regarding the provision made on the background of the classification of the securities of DBLA as assets held for sale, see Note 8A below.

J. The securities portfolio of the Discount Group as at December 31, 2013, includes a direct investment in bonds of the Federal Home Loan Bank (FHLB), Fannie Mae and Freddie Mac (hereinafter: "the Federal Agencies"), that are being held by IDB New York, in an amount of US$25 million, (NIS 87 million), compared to US$76 million on December 31, 2012 (NIS 284 million).

K. **Fair value presentation.** The balances of securities as of December 31, 2013, and December 31, 2012, include securities amounting to NIS 33,400 million and NIS 38,368 million, respectively, that are presented at fair value.

L. Data regarding impaired bonds - consolidated

	December 31, 2013	December 31, 2012
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	21	82

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

General. 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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2013					
Balance of allowance for credit losses, as at December 31, 2012	1,636	225	395	2,256	5	2,261
Credit loss expenses	538	31	13	582	(2)	580
Accounting write-offs	(690)	(1)	(261)	(952)	-	(952)
Collection of debts written-off in previous years	249	-	207	456	-	456
Net accounting write-offs	(441)	(1)	(54)	(496)	-	(496)
Financial statements translation adjustments	(19)	-	-	(19)	-	(19)
Assets and liabilities held for sale	(5)	-	-	(5)	-	(5)
Balance of allowance for credit losses, as at December 31, 2013	**1,709**	**255**	**354**	**2,318**	**3**	**2,321**
Of which: In respect of off-balance sheet credit instruments	153	1	30	184	-	184
	2012					
Balance of allowance for credit losses, as at December 31, 2011	1,477	230	440	2,147	4	2,151
Credit loss expenses	705	-	20	725	1	726
Accounting write-offs	(781)	(7)	(263)	(1,051)	-	(1,051)
Collection of debts written-off in previous years	241	2	198	441	-	441
Net accounting write-offs	(540)	(5)	(65)	(610)	-	(610)
Financial statements translation adjustments	(6)	-	-	(6)	-	(6)
Balance of allowance for credit losses, as at December 31, 2012	**1,636**	**225**	**395**	**2,256**	**5**	**2,261**
Of which: In respect of off-balance sheet credit instruments	132	-	39	171	-	171
	2011					
Balance of allowance for credit losses at the beginning of the year	–	–	–	6,384	–	6,384
Net accounting write-offs recognized as at January 1, 2011	–	–	–	(5,543)	–	(5,543)
Other changes in the allowance for credit losses as at January 1, 2011 (reflected in the equity)	–	–	–	1,382	–	1,382
Allowance for credit losses as at January 1,2011	1,490	241	492	2,223	[1]-	2,223
Credit loss expenses	640	(4)	138	774	4	778
Accounting write-offs	(962)	(7)	(281)	(1,250)	-	(1,250)
Collection of debts written-off in previous years	309	-	91	400	-	400
Net accounting write-offs	(653)	(7)	(190)	(850)	-	(850)
Balance of allowance for credit losses, as at December 31, 2011	**1,477**	**230**	**440**	**2,147**	**4**	**2,151**
Of which: In respect of off-balance sheet credit instruments	134	-	38	172	-	172

:Footnotes

(1) An amount lower than NIS 1 million

(2) Excluding balances classified as assets and liabilities held for sale – see Note 8A.

4. 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

	December 31,2013					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	61,161	-	4,401	65,562	7,260	72,822
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	395	19,978	-	20,373	-	20,373
Group - other	16,413	29	15,616	32,058	1,578	33,636
Total debts	**77,969**	**20,007**	**20,017**	**117,993**	**8,838**	**126,831**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	1,329	-	80	1,409	1	1,410
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	4	(1)254	-	258	-	258
Group - other	223	-	244	467	2	469
Total allowance for Credit Losses	**1,556**	**254**	**324**	**2,134**	**3**	**2,137**

For footnotes see next page.

	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	(2)63,645	35	(2)2,925	66,605	4,577	71,182
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	246	19,544	--	19,790	-	19,790
Group - other	(2)(3)17,441	86	(2)(3)15,774	33,301	5,097	38,398
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	(2)1,276	--	(2)64	1,340	-	1,340
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	2	(1)224	--	226	-	226
Group - other	(2)226	1	(2)292	519	5	524
Total allowance for Credit Losses	**1,504**	**225**	**356**	**2,085**	**5**	**2,090**

Footnotes:
(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 17 million (31.12.2012 - NIS 15 million), computed on a group basis in an amount of NIS 70 million (31.12.2012- NIS 42 million).
(2) Reclassified - improvement of the classification to test routs.
(3) Reclassified due to sectorial improvement of an intercompany balance.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

3. Change in the balance of the allowance for credit losses – The Bank

	2013					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2012	1,109	216	184	1,509	(1)-	1,509
Credit loss expenses	406	26	(6)	426	-	426
Accounting write-offs	(505)	(1)	(132)	(638)	-	(638)
Collection of debts written-off in previous years	184	-	109	293	-	293
Net accounting write-offs	(321)	(1)	(23)	(345)	-	(345)
Financial statements translation adjustments	(1)	--	--	(1)	-	(1)
Balance of allowance for credit losses, as at December 31, 2013	**1,193**	**241**	**155**	**1,589**	**(1)-**	**1,589**
Of which: In respect of off-balance sheet credit instruments	139	1	13	153	-	153
	2012					
Balance of allowance for credit losses, as at December 31, 2011	982	222	212	1,416	1	1,417
Credit loss expenses	569	(1)	22	590	(1)	589
Accounting write-offs	(627)	(7)	(157)	(791)	--	(791)
Collection of debts written-off in previous years	185	2	107	294	--	294
Net accounting write-offs	(442)	(5)	(50)	(497)	--	(497)
Balance of allowance for credit losses, as at December 31, 2012	**1,109**	**216**	**184**	**1,509**	**(1)-**	**1,509**
Of which: In respect of off-balance sheet credit instruments	117	-	17	134	-	134
	2011					
Balance of allowance for credit losses at the beginning of the year	-	-	-	5,290	-	5,290
Net accounting write-offs recognized as at January 1, 2011	-	-	-	(4,860)	-	(4,860)
Other changes in the allowance for credit losses as at January 1, 2011 (reflected in the equity)	-	-	-	1,062	-	1,062
Allowance for credit losses as at January 1,2011	1,024	233	235	1,492	(1)-	1,492
Credit loss expenses	450	(4)	127	573	1	574
Accounting write-offs	(641)	(7)	(241)	(889)	-	(889)
Collection of debts written-off in previous years	149	-	91	240	-	240
Net accounting write-offs	(492)	(7)	(150)	(649)	-	(649)
Balance of allowance for credit losses, as at December 31, 2011	**982**	**222**	**212**	**1,416**	**1**	**1,417**
Of which: In respect of off-balance sheet credit instruments	116	-	19	135	-	135

Note:
(1) An amount lower than NIS 1 million

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

4. 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 – The Bank

	December 31,2013					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	47,779	-	2,027	49,806	5,837	55,643
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	285	17,260	-	17,545	-	17,545
Group - other	3,615	-	8,527	12,142	-	12,142
Total debts(1)	**51,679**	**17,260**	**10,554**	**79,493**	**5,837**	**85,330**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	989	-	25	1,014	-	1,014
Examined on a group basis:						
Examined on a group basis:	4	(1)240	-	244	-	244
Group - other	61	-	117	178	(3)-	178
Total allowance for Credit Losses	**1,054**	**240**	**142**	**1,436**	**(3)-**	**1,436**

	December 31,2012					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	(2)51,275	35	(2)413	51,723	5,670	57,393
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	246	17,143	-	17,389	-	17,389
Group - other	(2)3,750	64	(2)9,478	13,292	-	13,292
Total debts(1)	**55,271**	**17,242**	**9,891**	**82,404**	**5,670**	**88,074**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	(2)936	-	(2)10	946	-	946
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	2	(1)215	-	217	-	217
Group - other	(2)54	1	(2)157	212	-	212
Total allowance for Credit Losses	**992**	**216**	**167**	**1,375**	**-**	**1,375**

Footnotes:

(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 16 million (31.12.2012- NIS 14 million), computed on a group basis in amount of NIS 60 million (31.12.2012- NIS 37 million).

(2) Reclassified - improvement of the classification to test routs.

(3) An amount lower than NIS 1 million

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts

1. Credit quality and arrears - consolidated

		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					
	December 31,2013					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	5,308	80	308	5,696	11	13
Construction and Real Estate - Real Estate Activity	7,555	132	586	8,273	-	3
Financial Services	6,276	143	147	6,566	2	1
Commercial - Other	34,686	1,498	1,511	37,695	27	41
Total Commercial	**53,825**	**1,853**	**2,552**	**58,230**	**40**	**58**
Private Individuals - Housing Loans	19,457	[5]471	-	19,928	435	85
Private Individuals - Other Loans	18,461	247	94	18,802	49	57
Total Public - Lending Activity in Israel	**91,743**	**2,571**	**2,646**	**96,960**	**524**	**200**
Banks in Israel	1,142	-	-	1,142	-	-
Government of Israel	1,806	-	-	1,806	-	-
Total Lending Activity in Israel	**94,691**	**2,571**	**2,646**	**99,908**	**524**	**200**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,197	206	692	6,095	-	-
Commercial - Other	13,019	121	504	13,644	-	1
Total Commercial	**18,216**	**327**	**1,196**	**19,739**	**-**	**1**
Private Individuals	1,278	6	10	1,294	7	1
Total Public - Lending Activity Outside of Israel	**19,494**	**333**	**1,206**	**21,033**	**7**	**2**
Foreign banks	5,861	-	-	5,861	-	-
Foreign governments	29	-	-	29	-	-
Total Lending Activity Outside of Israel	**25,384**	**333**	**1,206**	**26,923**	**7**	**2**
Total public	**111,237**	**2,904**	**3,852**	**117,993**	**531**	**202**
Total banks	**7,003**	**-**	**-**	**7,003**	**-**	**-**
Total governments	**1,835**	**-**	**-**	**1,835**	**-**	**-**
Total	**120,075**	**2,904**	**3,852**	**126,831**	**531**	**202**

For footnotes see next page.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	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 problematic debt restructuring, see Note 4.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 amount of NIS 93 million (31.12.2012 - NIS 196 million) are classified as unimpaired problematic debts.

(5) Including housing loans in amount of NIS 7 million (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).

4. 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

	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				
	December 31,2013				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	50	15	258	308	3,851
Construction and Real Estate - Real Estate Activity	252	49	334	586	2,003
Financial Services	116	29	31	147	495
Commercial - Other	820	238	691	1,511	5,936
Total Commercial	**1,238**	**331**	**1,314**	**2,552**	**12,285**
Private Individuals - Housing Loans	-	-	-	-	1
Private Individuals - Other Loans	45	14	49	94	460
Total Public - Lending Activity in Israel	**1,283**	**345**	**1,363**	**2,646**	**12,746**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,283**	**345**	**1,363**	**2,646**	**12,746**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	415	27	277	692	1,309
Commercial - Other	372	84	132	504	777
Total Commercial	**787**	**111**	**409**	**1,196**	**2,086**
Private Individuals	9	3	1	10	11
Total Public - Lending Activity Outside of Israel	**796**	**114**	**410**	**1,206**	**2,097**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**796**	**114**	**410**	**1,206**	**2,097**
Total public	**2,079**	**459**	**1,773**	**3,852**	**14,843**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,079**	**459**	**1,773**	**3,852**	**14,843**
Of which:					
Measured According to Present Value of Cash Flows	896	381	1,192	2,088	
Debts under troubled debt restructurings	745	172	904	1,649	

For footnotes see next page.

4. 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)

	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.

4. 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
	2013		
	In NIS millions		
Lending Activity in Israel			
Public - Commercial			
Construction and Real Estate - Construction	479	10	7
Construction and Real Estate - Real Estate Activity	623	11	6
Financial Services	191	1	-
Commercial - Other	1,787	34	21
Total Commercial	**3,080**	**56**	**34**
Private Individuals - Housing Loans	-	-	-
Private Individuals - Other Loans	139	12	8
Total Public - Lending Activity in Israel	**3,219**	**68**	**42**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total Lending Activity in Israel	**3,219**	**68**	**42**
Lending Activity Outside of Israel			
Public - Commercial			
Construction and Real Estate	1,249	23	21
Commercial - Other	551	5	4
Total Commercial	**1,800**	**28**	**25**
Private Individuals	11	-	-
Total Public - Lending Activity Outside of Israel	**1,811**	**28**	**25**
Foreign banks	-	-	-
Foreign governments	-	-	-
Total Lending Activity Outside of Israel	**1,811**	**28**	**25**
Total	**5,030**	**[3]96**	**67**

For footnotes see next page

4. 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

	2012[4]	2011
	in NIS millions	
The average recorded amount of impaired debts[1]	6,193	5,515
Total interest income recognized in respect of such debts during the period of time in which it had been classified as impaired	128	160
Of which: interest income recorded by the cash basis accounting method.	65	65
Total interest income that would have been recognized had such debts accrued interest according to its original terms.	236	356

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 195 millions.

(4) Reclassified.

4. 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 troubled debts - consolidated

	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 31,2013				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	102	-	3	51	156
Construction and Real Estate - Real Estate Activity	310	-	-	44	354
Financial Services	19	-	-	22	41
Commercial - Other	534	-	2	183	719
Total Commercial	**965**	**-**	**5**	**300**	**1,270**
Private Individuals – Housing Loans	-	-	-	-	-
Private Individuals – Other	36	-	1	29	66
Total Public - Lending Activity in Israel	**1,001**	**-**	**6**	**329**	**1,336**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,001**	**-**	**6**	**329**	**1,336**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	44	-	-	197	241
Commercial - Other	52	-	-	11	63
Total Commercial	**96**	**-**	**-**	**208**	**304**
Private Individuals	6	-	-	3	9
Total Public - Lending Activity Outside of Israel	**102**	**-**	**-**	**211**	**313**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**102**	**-**	**-**	**211**	**313**
Total	**1,103**	**-**	**6**	**540**	**1,649**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

4. 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 troubled debts – consolidated (continued)

	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	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.

4. 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 troubled debts - consolidated (continued)

	Debt restructuring made during		
	2013		
	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	85	51	49
Construction and Real Estate - Real Estate Activity	6	20	20
Financial Services	6	14	14
Commercial - Other	511	233	224
Total Commercial	**608**	**318**	**307**
Private Individuals - Housing Loans	-	-	-
Private Individuals - Other	3,575	51	48
Total Public - Lending Activity in Israel	**4,183**	**369**	**355**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total Lending Activity in Israel	**4,183**	**369**	**355**
Lending Activity Outside of Israel			
Public - Commercial			
Construction and Real Estate	7	105	101
Commercial - Other	13	84	81
Total Commercial	**20**	**189**	**182**
Private Individuals	5	11	11
Total Public - Lending Activity Outside of Israel	**25**	**200**	**193**
Foreign banks	-	-	-
Foreign governments	-	-	-
Total Lending Activity Outside of Israel	**25**	**200**	**193**
Total	**4,208**	**569**	**548**

4. 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 troubled debts - consolidated (continued)

	Failure of restructured debts during[1]	
	2013	
	Number of contracts	Recorded amount
	In NIS millions	
Lending Activity in Israel		
Public - Commercial		
Construction and Real Estate - Construction	15	[2]-
Construction and Real Estate - Real Estate Activity	2	[2]-
Financial Services	1	[2]-
Commercial - Other	151	25
Total Commercial	**169**	**25**
Private Individuals - Other	3,329	16
Total Public - Activity in Israel	**3,498**	**41**
Banks in Israel	-	-
Government of Israel	-	-
Total Activity in Israel	**3,498**	**41**
Lending Activity Outside of Israel		
Commercial - Other	2	[2]-
Total Commercial	**2**	**[2]-**
Total Public - Activity Outside of Israel	**2**	**[2]-**
Foreign banks	-	-
Foreign governments	-	-
Total Activity Outside of Israel	**2**	**[2]-**
TOTAL	**3,500**	**41**

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.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (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.

(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

	December 31,2013				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	92.4%	97.6%	98.2%	94.3%	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	2.8%	2.4%	1.3%	2.5%	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	4.8%	-	0.5%	3.3%	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%	1.6%	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)	23.3%	53.3%	91.0%	28.4%	19.8%	47.6%	84.5%	24.6%

4. 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 number of days in which a debt is in arrears 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 that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank. During 2013, the ratio of performing credit to the public increased, amounting to 94.3%compared to 93.4% in 2012. The impaired credit as a ratio of total credit to the public declined during 2013, this, due to a decline in credit to the middle market banking segment, comprising most of the impaired credit.

Notwithstanding, the ratio of problematic credit, which is not impaired, has increased, amounting to 2.5% of total credit to the public, principally due to a single borrower belonging to the middle market banking segment.

During 2013, the ratio between the balance of allowance for credit losses and the problematic credit risk increased, mainly due to the growth in the balance of allowance in respect of the middle market banking segment.

(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.

Processes and tools for detecting and identifying problematic debts. The Bank has defined processes for locating weaknesses in borrower portfolios. The processes include the use of mechanized models for the early detection of negative symptoms, "red lights" system, exceptions reports, etc. In addition, processes were defined for current surveys of borrower portfolios by the responsible business functionary, current discussions by the credit committees and scanning by the various control units.

Debt test routes. For details regarding the adopted accounting policy, see Note 1 D 4 above.

Criteria for the classification of debts as problematic debts. The process of classification of debts at the Bank is performed while combining qualitative criteria with quantitative criteria.

In deciding whether a debt should be classified as problematic, all factors relevant to the collection prospects of the debt are taken into consideration, including economic, environmental and industry factors. Furthermore, defined in the policy are terms for the reclassification of a debt from the status of "impaired" and the terms for defining an impaired debt under restructuring as accruing interest.

In 2013, changes were made in the Bank`s procedures for the treatment of problematic debts, among other things, in view of changes and updates published by the Supervisor of Banks.

For a wider discussion of the accounting policy, see Note 1.

(D) Credit quality disclosure

The Bank's credit policy addresses, among other things, the monitoring of credit quality. In addition, the Bank has work processes regarding the manner of credit treatment, which are being updated when required.

(1) Business credit processes

A current follow-up and a systematic quarterly monitoring for the detection of negative symptoms are being conducted as well as tests on the background of negative indications. The "red lights" system was launched during the year, which serves for the identification of negative indications, also for some of the customers of the commercial credit. In addition, borrower portfolios are being discussed from time to time, and the need to add a borrower to the follow-up list or reclassify his debt is being examined.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

Follow-up lists comprise a supporting process within the overall framework of detecting and classifying problematic debts at a preliminary stage of identifying negative symptoms in borrower portfolios.

Through a systematic process and using a rating system, the Bank assesses the risk level of borrowers at least once in each year. The rating is determined by the business factor, is being used for customer credit risk evaluation and provides a comparative index between all borrowers. The rating's reasonableness is tested by factors at the Bank who are not involved with the granting and management of credit, and as such are considered independent.

In addition, small businesses have a separate system, which is in the development stage and is based on the platform of the "credit securing" system for private individuals.

Furthermore, an additional control circle exists – credit control and internal audit. This process is conducted at all credit layers.

(2) Credit processes for private individuals

- Credit scoring – A model used by the branches for rating determination and providing recommendations for the granting of credit, designed to foresee the prospect of "failure" of a private customer on the basis of a diversity of explanatory variables. The results of the model are used as a parameter in the red lights system;
- Red lights – A computer system for the identification of various symptoms in customer accounts, indicating the possibility of deterioration in his situation. The system produces control and management reports for the purpose of follow-up. Specific accounts are transferred for treatment by a designated unit for the purpose of reinstatement of regular activity in the account or passing-on the treatment to collection and classification of the debt;
- A model for the rating of applications for mortgage loans – the model rates new transactions on the basis of failure prospects considering the characteristics of the borrower, the transaction and the asset.

4. Additional information regarding housing loans

Balances for the period end, according to Loan-to-Value (LTV) ratio, manner of repayment and type of interest:

		Balance of housing loans			
		Total	Of which: Bullet and Baloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31,2013			
First degree pledge: financing ratio	Up to 60%	11,576	253	7,755	203
	Over 60%	8,243	78	5,602	64
Second degree pledge or without pledge		582	16	317	1,184
Total		**20,401**	**347**	**13,674**	**1,451**
		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	(3)57	(2)(3)61	1,204
Total		**20,092**	**403**	**13,002**	**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.

(3) Reclassified due to improvement of the data.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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								
	2013					2012			
Loans acquired	25	-	-	156	181	-	-	-	-
Loans sold	547	-	-	-	547	(1)55	-	-	55

Footnote:
(1) Reclassified

For details regarding net profits (losses) on the sale of loans, see Note 24 below.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

D. Composition of credit to the public(1) and off-balance-sheet credit risk(3), by size of credit to individual burrowers

1. Consolidated

				December 31					
				2013			2011		
				Number of borrowers(2)	Credit(1)	Off-balance Credit risk(3)	Number of borrowers(2)	Credit(1)(6)(7)	Off-balance Credit risk(3)(6)(7)
				in NIS millions					
Credit limit in NIS thousand:									
		Up to	10	1,112,288	1,711	1,401	1,163,830	3,265	1,550
Over	10	Up to	20	422,871	2,458	4,482	384,585	2,490	3,933
Over	20	Up to	40	261,310	3,996	4,454	249,476	3,603	4,286
Over	40	Up to	80	138,840	5,157	3,406	133,303	4,143	3,436
Over	80	Up to	150	52,226	4,659	1,613	48,126	3,685	1,675
Over	150	Up to	300	27,806	5,083	1,069	27,078	4,754	1,025
Over	300	Up to	600	22,571	8,572	1,367	22,687	8,537	1,291
Over	600	Up to	1,200	15,985	11,136	1,999	15,905	10,957	1,810
Over	1,200	Up to	2,000	3,844	4,750	1,116	3,749	4,569	935
Over	2,000	Up to	(4)4,000	2,447	5,329	1,441	2,515	5,368	1,330
Over	4,000	Up to	(4)8,000	1,246	5,223	1,861	1,180	5,075	1,724
Over	8,000	Up to	(4)20,000	976	9,466	2,544	1,008	9,537	2,928
Over	20,000	Up to	(4)40,000	552	11,289	3,430	569	11,129	3,999
Over	40,000	Up to	(4)200,000	578	28,441	12,709	629	30,906	13,403
Over	200,000	Up to	(4)400,000	41	8,241	2,608	41	8,567	2,901
Over	400,000	Up to	(4)800,000	10	3,591	1,183	18	6,686	2,754
Over	800,000	Up to	(4)1,200,000	1	970	10	2	1,311	585
Over	1,200,000	Up to	(4)1,600,000	2	1,309	1,133	-	-	-
Over	1,600,000	Up to	(4)(8)2,400,000	*2	*4,063	-	1	1,144	627
Over	2,400,000	Up to	(4)(8)2,800,000	-	-	-	*1	*2,424	-
Over	2,800,000	Up to	(4)3,200,000	1	2,239	876	-	-	-
Over	(4)3,200,000			*1	*3,945	-	*2	*8,326	-
Total				**2,063,598**	**131,628**	**48,702**	**2,054,705**	**136,476**	**50,192**
Mortgage backed securities issued by:									
GNMA				1	2,026	-	1	3,922	-
FNMA				1	3,945	-	1	4,404	-
FHLMC				1	2,037	-	1	2,424	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public, before allowance for credit losses and before effect of collateral eligible for deduction of a debt of a single burrower or a group of borrowers.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees as of December 31, 2013 - NIS 4,682 million, as of December 31, 2012 - NIS 4,424 million).

(4) Consolidated - by combining specific balances.

(5) The credit limit in the top level: NIS 3,945 million (2012: NIS 4,404 million).

(6) Not including balances classified as assets and liabilities held for sale – see Notes 8A.

(7) Reclassified due to the implementation of the instructions of the Supervisor of Banks regarding the offsetting of assets and liabilities, see Note 1D 8 and also due to the consolidation of borrowers with the same source for repayment.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

D. Composition of credit to the public[(1)] and off-balance-sheet credit risk[(3)], by size of credit to individual burrowers (continued)

2. The Bank

				December 31					
				2013			2012		
				Number of borrowers[(2)]	Credit[(1)]	Off-balance Credit risk[(3)]	Number of borrowers[(2)]	Credit[(1)(5)]	Off-balance Credit risk[(3)(5)]
						in NIS millions			
Credit limit (in NIS thousand):									
		Up to	10	248,321	319	282	279,660	1,777	526
Over	10	Up to	20	122,567	806	1,394	119,910	919	1,394
Over	20	Up to	40	109,880	1,910	2,022	109,115	1,639	2,088
Over	40	Up to	80	79,605	3,352	2,093	77,323	2,502	2,146
Over	80	Up to	150	38,411	3,468	1,332	35,810	2,649	1,400
Over	150	Up to	300	20,312	3,717	866	20,120	3,489	826
Over	300	Up to	600	17,599	6,694	1,141	18,169	6,834	1,079
Over	600	Up to	1,200	13,147	9,055	1,743	13,365	9,106	1,568
Over	1,200	Up to	2,000	2,863	3,438	942	2,747	3,251	739
Over	2,000	Up to	4,000	1,632	3,371	1,193	1,664	3,358	1,069
Over	4,000	Up to	8,000	884	3,387	1,614	886	3,313	1,558
Over	8,000	Up to	20,000	598	5,452	2,052	644	5,844	2,244
Over	20,000	Up to	40,000	277	5,463	2,333	296	5,654	2,670
Over	40,000	Up to	200,000	282	15,297	7,106	306	17,016	6,614
Over	200,000	Up to	400,000	32	6,488	2,176	34	6,947	2,665
Over	400,000	Up to	800,000	10	3,591	1,183	17	6,604	2,563
Over	800,000	Up to	1,200,000	3	2,239	955	2	1,311	498
Over	1,200,000	Up to	1,600,000	1	1,177	56	-	-	-
Over	1,600,000	Up to	2,800,000	-	-	-	1	1,144	627
Over	2,800,000	Up to	3,200,000	1	1,999	873	-	-	-
Total				**656,425**	**81,223**	**31,356**	**680,069**	**83,357**	**32,274**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public, before allowance for credit losses and before effect of collateral eligible for deduction of a debt of a single burrower or a group of borrowers.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit in the top level: NIS 2,872 million (2012: NIS 1,771 million).

(5) Reclassified, For details regarding the implementation of the instructions of the Supervisor of Banks regarding the setoff of assets and liabilities, see Note 1 D 8 and also due to the consolidation of borrowers with the same source for repayment.

5. CREDIT GRANTED TO GOVERNMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Tender for state employees and teaching staff	1,644	1,614	1,644	1,614
Credit to Israel government	162	-	162	-
Credit to foreign governments	29	82	-	-
Total credit granted to Governments	**(1)1,835**	**1,696**	**1,806**	**1,614**

Footnote:

(1) Excluding balances classified as assets held for sale – see Note 8A.

6. INVESTMENT IN INVESTEE COMPANIES

A. Consolidated

	December 31, 2013			December 31, 2012		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	In NIS millions					
Investments						
Shares stated on equity basis (including goodwill)[(1)]	1,666	-	1,666	1,720	-	1,720
Other investments:						
Shareholders' loans	2	-	2	4	-	4
Total other investments	2	-	2	4	-	4
Total investments	**1,668**	**-**	**1,668**	**1,724**	**-**	**1,724**
Includes:						
Earnings accumulated since January 1, 1992	1,021	-	1,021	1,097	-	1,097
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment in respect of presentation of securities available for sale at fair value, net	14	-	14	21	-	21
Financial statements translation adjustments	(1)	-	(1)	-	-	-
Details Regarding Goodwill:						
Original amount	-	283	283	3	283	286
Book value[(2)]	-	142	142	-	142	142
Book and Market Values of Marketable Investments:						
Book value	1,530	-	1,530	1,624	-	1,624
Market value	1,530	-	1,530	1,446	-	1,446

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

B. The Bank

	December 31, 2013			December 31, 2012		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	in NIS millions					
Investments:						
Shares stated on equity basis (including goodwill)(1)	1,598	6,376	7,974	1,706	6,447	8,153
Other investments:						
Subordinated debt notes and Capital notes	-	1,032	1,032	-	1,021	1,021
Shareholders' loans	-	-	-	2	-	2
Total other investments	-	1,032	1,032	2	1,021	1,023
Total investments	**1,598**	**7,408**	**9,006**	**1,708**	**7,468**	**9,176**
Includes:						
Retained earnings since January 1, 1992	1,047	3,875	4,922	1,135	3,592	4,727
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of securities available for sale at fair value, net	14	(97)	(83)	21	38	59
Financial statements translation adjustments	(1)	(305)	(306)	-	(81)	(81)
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	(6)	(6)	-	(10)	(10)
Details Regarding Goodwill:						
Original amount	-	282	282	3	282	285
Book value	-	142	142	-	142	142
Book and Market Values of Marketable Investments:						
Book value	1,530	-	1,530	1,624	-	1,624
Market value	1,530	-	1,530	1,446	-	1,446

Footnote:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

The Bank's share of income or loss of investee companies

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	In NIS millions					
Bank's share in income of investee companies (consolidated - affiliated companies)	159	201	130	718	759	937
Losses on impairment in value of investee companies	(3)(185)	(3)(113)	-	(3)(185)	(3)(113)	(3)
	(26)	88	130	533	646	934
Provision for taxes (tax saving):						
Current taxes(1)	-	-	-	30	23	26
Deferred taxes(2)	(71)	(16)	29	(83)	(4)	32
Total provision for taxes (tax saving)	(71)	(16)	29	(53)	19	58
Bank's share in income net of tax effect of investee companies (consolidated - affiliated companies)	**45**	**104**	**101**	**586**	**627**	**876**

Footnotes:

(1) Current taxes in respect of IDB New York, in accordance with an agreement with the Tax Authorities – see Note 29 L hereunder.

(2) Including the increase (decrease) in the provision for taxes in respect of the Bank's share in the results of the First International Bank: 2013 - NIS (72) Million, 2012 - NIS (16) million and 2011 - NIS 29 million.

(3) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares: Equity basis[1]		Investment in shares: Market value	
		2013	2012	2013	2012	2013	2012	2013	2012
		In %				In NIS millions			
1. Consolidated Subsidiaries:									
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	24	23	-	-
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	2,829	3,101	-	-
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	1,931	1,889	-	-
Israel Credit Cards Ltd.[4]	Credit card service	[16]71.83	[16]71.83	79.00	79.00	696	723	-	-
Discount Leasing Ltd.	Equipment leasing	100.00	100.00	100.00	100.00	113	110	-	-
Discount Israel Capital Markets and Investments Ltd.[15]	Underwriting and investments	100.00	100.00	100.00	100.00	218	92	-	-
Discount Manpikim Ltd.[12]	Securities issue	100.00	100.00	100.00	100.00	63	61	-	-
IDB (Swiss) Bank Ltd.[17]	Commercial bank, Switzerland	100.00	100.00	100.00	100.00	207	215	-	-
Companies held by Israel Discount Bank of New York:									
(America Latin) Bank Discount [5][14]	Commercial bank, Uruguay	100.00	100.00	100.00	100.00	269	289	-	-
IDBNY Reality (Delaware), Inc[5]	Holding company, USA	100.00	100.00	100.00	100.00	2,522	1,794	-	-
LLC Realty IDB [6]	Investment company, USA	100.00	100.00	100.00	100.00	5,349	6,644	-	-
Companies held by Israel Credit Cards Ltd.:									
Diners (Club) Israel Ltd.[13]	Credit card service	51.00	51.00	51.00	51.00	174	145	-	-
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	46	25	-	-
2.Affiliated Companies:									
First International Bank of Israel Ltd.[7]	Commercial bank	26.45	26.45	26.45	26.45	[11]1,530	[11]1,624	1,530	1,446

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of VISA Europe, securing all of ICC's liabilities, see Note 19 C 10 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net income are not deducted from the investment and contribution to profit of Israel Discount Bank of New York.

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net income are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc.

Of which: excess of cost balance		Other investments		Contribution to net income attributed to bank's shareholders		Of which: loss on impairment		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
-	-	-	-	1	1	-	-	-	-	-	-	-	-
-	-	-	-	147	122	-	-	88	-	(491)	(144)	-	-
-	-	85	83	182	191	-	-	120	150	74	95	-	-
[9]142	[9]142	39	38	42	106	-	-	72	155	-	-	10	15
-	-	-	-	3	1	-	-	-	-	-	-	-	-
-	-	773	721	114	56	-	-	-	-	8	(4)	-	-
-	-	42	84	2	2	-	-	-	-	-	-	-	-
-	-	-	-	(9)	(7)	-	-	-	-	-	-	-	-
-	-	-	-	(6)	21	-	-	-	-	(21)	(6)	-	-
-	-	-	-	30	48	-	-	814	-	(731)	(212)	-	-
-	-	-	-	30	29	-	-	-	-	-	-	-	-
-	-	86	88	20	17	-	-	-	54	-	-	-	-
-	-	-	-	[10][11]38	[10][11]56	(185)	(113)	53	-	14	11	-	-

(7) For details regarding the agreement with FIBI Holdings Ltd. regarding the continued interest of the Bank in the First International Bank, regarding the outline for the reduction in such interest and regarding the deposit of a part of the shares in the hands of a Trustee, see Section E below.
(8) Including adjustments from translation of financial statements of units having a functional currency that differs from the reporting currency and adjustments concerning the presentation of certain securities of investee companies at fair value.
(9) Goodwill.
(10) Including the decrease in the provision for taxes in respect of the Bank's share in the results of the First International Bank: 2013 - NIS 72 Million, 2012 - NIS 16 million.
(11) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 E (3).
(12) Following the merger between MDB and the Bank, Discount Mortgage Issues Ltd. was merged on November 11, 2012 with and into Discount Manpikim Ltd.
(13) For details regarding the holding of a controlling interest in Diners and as regards the put option written to the other interest holders, see Note 34A below.
(14) See Note 8A below.
(15) The merger between Freenet A.K. Communication Ltd ("Freenet") and Israel Discount Capital Markets and Investments Ltd. ("DCMI") was approved on April 2, 2014. Respectively, the comparative data for 2012 have been reclassified in order to reflect the data for Freenet as part of the data of DCMI.
(16) The balance is held by FIBI, which was an affiliated company of the Bank until March 13, 2014 – see item E (1) below.
(17) For details regarding the agreement between the Swiss authorities and the United States Department of Justice, see item F below.

6. INVESTMENTS IN INVESTEE COMPANIES (CONTINUED)

D. Summary information regarding affiliated companies

1. Summary information regarding the financial condition – First International Bank of Israel Ltd. ("FIBI")

	Rate of ownership	Total assets	Total liabilities	Capital attributed to company owners	Capital attributed to non-controlling right holders
	In %	In NIS millions			
31.12.2013	26.45	111,103	103,983	6,892	228
31.12.2012	26.45	105,685	98,913	6,563	209

2. Summary information regarding results of operation – First International Bank of Israel Ltd. ("FIBI")

	Rate of ownership	Net income	Net income attributed to company shareholders	Net income attributed to non-controlling rights holders
	In %	In NIS millions		
2013	26.45	591	570	21
2012	26.45	599	577	22
2011	26.45	499	480	19

E. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI")

(1) An agreement with FIBI holdings. On March 28, 2010, an agreement was signed between the Bank and FIBI Holdings Ltd. (hereinafter: "FIBI Holdings") regarding the Bank's holdings in FIBI.

Following are the principal terms of the agreement:

- The agreement contains conditions precedent to its validity (hereinafter: "the conditions precedent"), which are: obtaining the approval of the Supervisor of Banks and the approval of the Antitrust Commissioner to the agreement ("the regulatory approvals"), this until the end of 150 days from the date of signing of the agreement; as well as the distribution of a cash dividend of NIS 800 million by FIBI to its shareholders, out of its retained earnings as of December 31, 2005, as per its financial statements (hereinafter: "the distribution");
- It has been agreed that FIBI Holdings will act to the best of its ability towards the unification of the share capital of FIBI, following which, all shares making up the share capital of FIBI shall be of one class and shall confer equal voting rights;
- Israel Discount Bank shall vote in favor of completing the process of unification of the share capital in the general meetings of shareholders of FIBI, subject to obtaining the regulatory approvals to the agreement as well as to the realization of the terms specified in the agreements, inter-alia, completion of actual distribution or obtaining confirmation according to which all required proceedings for the distribution have been realized and all approvals for the distribution have been obtained;
- Soon after completion of the unification of capital, Israel Discount Bank shall deposit with a trustee a number of shares of FIBI, the voting rights attached therein (out of the total voting rights in FIBI) exceeding the rate of voting rights in FIBI held by Israel Discount Bank at date of signing the agreement (hereinafter: "the deposited shares"), this in accordance with a trusteeship agreement to be approved by the Supervisor of Banks. Israel Discount Bank or the trustee shall refrain from acting upon the voting rights attached to the deposited shares. The trustee shall pass on to Israel Discount Bank any dividend or any other benefit of any kind that will be received by him by virtue of the deposited shares, immediately upon their receipt (excluding bonus shares or shares stemming from the unification of the capital, or a split of the deposited shares, or shares deriving from securities convertible into shares, which FIBI may issue in respect of the deposited shares. These shares shall remain in the hands of the trustee and shall become an integral part of the deposited shares for all intents and purposes).

6. INVESTMENTS IN INVESTEE COMPANIES (CONTINUED)

The trustee shall release the deposited shares in the event that the ratio of voting rights held by Israel Discount Bank in FIBI shall fall below the ratio that existed at date of signing the agreement (11.09%) in order to restore the ratio of voting rights to the ratio that existed at date of signing the agreement, or for the purpose of transferring the deposited shares, or part thereof, to a third party;

- It has been agreed that until the determining date, as signified below, Israel Discount Bank shall be entitled to purchase additional securities within the framework of any rights offer by FIBI to its shareholders, on condition that the additional shares purchased by Israel Discount Bank, if at all, shall be deposited with the trustee and all the provisions applying to the deposited shares shall also apply to them;
- Starting with the date on which all conditions precedent to the agreement are fulfilled, the arrangement existing between Israel Discount Bank and FIBI Holdings regarding the right of first refusal for the purchase of shares in FIBI, shall be abolished, and any transfer or sale of shares in FIBI by FIBI Holdings or by Israel Discount Bank, shall not be subject to the said right;

The agreement determined conditions precedent, which were fulfilled as detailed below:

Distribution of Dividend - on September 6, 2010, the Bank received a cash dividend of NIS 212 million in the framework of a cash dividend to shareholders of FIBI in a total amount of NIS 800 million.

Reverse stock split - the determining date for FIBI's reverse stock split was on September 19, 2010, and as from September 20, 2010 only shares of a par value of NIS 0.05 of FIBI are being traded on the Tel Aviv Stock Exchange. Upon completion of the process for FIBI's reverse stock split, the rate of the Bank's holdings in FIBI increased to 26.4% in the voting rights. In accordance with the provisions of the agreement, the Bank deposited with a Trustee shares which grant it voting rights in excess of 11.09%.

Within the framework of the agreement the Bank has committed that until the end of six months from the date of completion of the unification of capital, and subject to the fulfillment of the conditions precedent and subject to the completion of the unification of the capital, it shall act towards the sale of 6% of its holdings in the equity and voting rights in FIBI to third parties, provided that market conditions allow this sale at a price that is not lower than the stated value of the investment in such shares in the financial statements of Israel Discount Bank;

It should be mentioned that at this stage the Bank has not yet sold 6% of the shares in FIBI, due to the fact that conditions enabling a sale at a price which is not below the stated value of the shares in the Bank's books have not yet arisen.

Within the framework of the agreement it has been determined that starting with the date on which all conditions precedent to the agreement are fulfilled and until December 31, 2013 (hereinafter: "the determining date"), Israel Discount Bank shall be entitled to have FIBI Holdings continue to cause the appointment of one quarter of the Directors of FIBI from among candidates recommended by Israel Discount Bank (subject to directives regarding the prevention of conflict of interests), regardless of the number of shares held by Israel Discount Bank. Subsequent to the determining date, the arrangement existing between Israel Discount Bank and FIBI Holdings, including the arrangement regarding appointment of directors recommended by Israel Discount Bank, shall become null and void. Certain terms had been included in the agreement, where upon the realization of which, the determined date would be deferred. Accordingly the determined date was deferred to March 13, 2014.

Approvals of the Supervisor of Banks and the Antitrust Commissioner. The approval of the Supervisor of Banks for the agreement and the approval of the Antitrust Commissioner (hereinafter: "the Commissioner) for "merger of companies" under the Restrictive Trade Practices Law, 1988, were received on August 17, 2010, with respect to the process of unification of the share capital to be executed by FIBI. The parties to the agreement confirmed that the conditions precedent determined in the agreement for this purpose have been fulfilled with the receipt of the above mentioned two approvals.

The agreement, approved by the Supervisor of Banks, specified that the Supervisor of Banks would consider the Bank's request in the event that FIBI would offer rights to all its shareholders and the Bank would seek to participate in such offer.

6. INVESTMENTS IN INVESTEE COMPANIES (CONTINUED)

Among other things, the approval by the Commissioner specified that the Bank must reduce its holdings in FIBI to a rate below 10% of the issued share capital of FIBI by December 31, 2015, or until the end of five years from date of the unification of the share capital of FIBI, the earlier of the two, and in addition reduce its holdings in FIBI to a rate below 5% of the issued share capital of FIBI by December 31, 2017, or until the end of seven years from date of completion of the unification of the share capital of FIBI, the earlier of the two (namely, until September 19, 2015). Alternatively, the Bank must reduce its holdings in FIBI to a rate below 5% of the issued share capital of FIBI by December 31, 2016, or until the end of six years from date of completion of the unification of the share capital of FIBI, the earlier of the two (namely, until September 19, 2017). In addition, the Commissioner's approval specifies that in the event that the Bank does not reduce its holdings until the end of the above mentioned periods, as the case may be, than the excess number of shares in FIBI held by the Bank subsequent to the dates detailed above, shall be sold by a Trustee appointed for this purpose, this in accordance with the arrangements determined in this matter in the Commissioner's approval. Furthermore, it has been determined that the Bank shall not acquire shares in FIBI or any right in FIBI any other way, unless with the prior permission in writing by the Commissioner.

On September 6, 2010, following completion of the distribution and the actual payment in cash of the dividend, in accordance with the agreement, and upon obtaining the regulatory approvals with respect to the agreement, the conditions precedent have been fulfilled and the agreement came into effect.

It should be noted, that following the formation of the agreements with FIBI Holdings, the Bank includes a provision for taxes, in respect of its holdings in FIBI, this in view of the uncertainty regarding the continued holding by the Bank of the shares in FIBI and based on the assumption that over a period of time, the Bank will sell all of its holdings in FIBI.

Update as of date of publication of the Report. The entitlement of the Bank to the commitment by FIBI Holdings to continue and cause the appointment of one quarter of the board of directors of FIBI from among candidates proposed by Discount Bank, expired on March 13, 2014. With the expiry of this entitlement, the Bank has lost its significant influence over FIBI (within the meaning of this term in generally accepted accounting principles). In accordance with the reporting instructions of the Supervisor of Banks, the shares will be stated in the interim financial statements as of March 31, 2014, as available-for-sale shares, at their fair value.

(2) Data regarding the investment in FIBI

The net asset value of the Bank’s investment in FIBI as of December 31, 2013, is NIS 1,530 million. The market value of the Bank’s holdings in FIBI totaled on December 31, 2013, in NIS 1,530 million. The market value of this investment at March 12, 2014 was NIS 1,497 million.

(3) An opinion in the matter of the provision for impairment in value. Note 6 E (3) to the financial statements as of December 31, 2011 and 2012, and Note 12 to the interim financial statements for March 31, 2012, June 30, 2012, September 30, 2012, March 31, 2013, June 30, 2013 and September 30, 2013, 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, respectively, "March 2012 opinion" and "May 2012 Opinion"). In the said Opinions, Prof. Eden came to the general conclusion that the Bank does not need, in accordance with accepted accounting principles, to perform a provision for impairment regarding its investment in FIBI shares. This, with the exception of the August 2012 opinion, as detailed hereunder. The Bank examined the said opinions and decided to adopt them.

The August 2012 Opinion. Note 12 to the interim financial statements as of June 30, 2012, described an update (on the basis of FIBI's financial statements as of March 31, 2012) received by the Bank from Prof. Eden, CPA, of his Opinion from May 2012, who gave his consent to the inclusion thereof in the financial statements (hereinafter: "the August 2012 opinion").

In conclusion of the August 2012 Opinion, Prof. Eden has reached the opinion that the recoverable value amount of the Bank's investment in shares of FIBI is in the range of between 88.4% and 97.9% of its stated value in the books of Discount Bank (before provision). In consequence thereof, the Bank has to recognize a provision for impairment at a rate lying within the said range, in accordance with the judgment of the Bank's Management.

6. INVESTMENTS IN INVESTEE COMPANIES (CONTINUED)

The Bank believes that it might have been acceptable to adopt the upper value in the range defined in the said Opinion. However, in view of the layout for the sale of the investment, as detailed above, the Bank has decided to include in the financial report as of June 30, 2012, a provision for impairment at the rate of 7% of the equity value of the investment (an amount of NIS 113 million). In determining the assessment of the provision within the range defined in the said Opinion, the Bank had taken into consideration the market condition, which had prevailed at that time as well as the said sale layout.

Provision for impairment in the financial statements as of December 31, 2013. In view of the approach by the Supervisor of Banks, and on the background of the termination in March 2014 of the Bank`s right to recommend the appointment of directors to the Board of FIBI (see above), and on the background of the decision of the Antitrust Commissioner in the matter of the decline in the Bank`s holdings in FIBI (see above), the Bank has decided to state the above investment in the Bank`s books as of December 31, 2013, at the market value of the shares, and accordingly, include in the financial statements as of December 31, 2013, an additional provision for impairment of the value of the investment in shares of FIBI in respect of the anticipated loss amounting to NIS 158 million.

F. **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. [Insert B-161] It should be noted that IDB (Swiss) is not under investigation or other proceedings by the U.S. Department of Justice.

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, was allowed 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.

In continuation to that stated above, following an examination of the plan and relying, among other things, on outside legal advice rendered to IDB (Swiss) Bank, the Bank and IDB (Swiss) Bank decided not to join the plan.

In the opinion of the Bank and IDB (Swiss) Bank, following the changes occurring in the present financial environment in Switzerland, business and regulatory risks exist, which might affect the financial position and business results of IDB (Swiss) Bank, and which at this stage cannot be assessed.

7. BUILDINGS AND EQUIPMENT

A. Composition

	Consolidated				
	Buildings and land*	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2011	2,387	846	1,077	2,824	7,134
Additions	40	49	98	317	504
Disposals**	(84)	(50)	(218)	(33)	(385)
Balance as at December 31, 2012	**2,343**	**845**	**957**	**3,108**	**7,253**
Additions	51	38	65	270	424
Assets designated for sale	(86)	(12)	(33)	(12)	(143)
Disposals	(20)	(25)	(63)	(30)	(138)
Balance as at December 31, 2013	**2,288**	**846**	**926**	**3,336**	**7,396**
Depreciation and impairment loss:					
Balance as at December 31, 2011	1,032	566	856	1,600	4,054
Depreciation for the year	70	47	94	382	593
Reversal of impairment loss	(3)	-	-	-	(3)
Disposals**	(54)	(58)	(218)	(23)	(353)
Balance as at December 31, 2012	**1,045**	**555**	**732**	**1,959**	**4,291**
Depreciation for the year	66	47	87	402	602
Reversal of impairment loss	(3)	-	-	-	(3)
Assets designated for sale	(37)	(9)	(29)	(10)	(85)
Disposals	(7)	(27)	(59)	(12)	(105)
Balance as at December 31, 2013	**1,064**	**566**	**731**	**2,339**	**4,700**
Book value:					
Balance as at December 31, 2011	**1,355**	**280**	**221**	**1,224**	**3,080**
Balance as at December 31, 2012	**1,298**	**290**	**225**	**1,149**	**2,962**
Balance as at December 31, 2013	**1,224**	**280**	**195**	**997**	**2,696**
Average weighted depreciation rate for year 2012	3.7%	9.6%	21.5%	17.5%	11.9%
Average weighted depreciation rate for year 2013	3.7%	9.9%	21.4%	18.0%	12.3%

*Includes installations and leasehold improvements.

**reclassified

7. BUILDINGS AND EQUIPMENT (CONTINUED)

A. Composition (continued)

	The Bank				
	Buildings and land*	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2011	1,732	460	781	2,134	5,107
Additions	22	30	68	212	332
Disposals**	(49)	(18)	(152)	(32)	(251)
Balance as at December 31, 2012	**1,705**	**472**	**697**	**2,314**	**5,188**
Additions	17	20	48	168	253
Assets designated for sale (see Note 8 A)	(32)	-	-	-	(32)
Disposals	-	(19)	(50)	(2)	(71)
Balance as at December 31, 2013	**1,690**	**473**	**695**	**2,480**	**5,338**
Depreciation and impairment loss:					
Balance as at December 31, 2011	774	271	618	1,152	2,815
Depreciation for the year	48	30	68	306	452
Reversal of impairment loss	(3)	-	-	-	(3)
Disposals**	(34)	(26)	(153)	(24)	(237)
Balance as at December 31, 2012	**785**	**275**	**533**	**1,434**	**3,027**
Depreciation for the year	44	30	60	318	452
Reversal of impairment loss	(3)	-	-	-	(3)
Assets designated for sale (see Note 8 A)	(24)	-	-	-	(24)
Disposals	-	(19)	(50)	(2)	(71)
Balance as at December 31, 2013	**802**	**286**	**543**	**1,750**	**3,381**
Book value:					
Balance as at December 31, 2011	**958**	**189**	**163**	**982**	**2,292**
Balance as at December 31, 2012	**920**	**197**	**164**	**880**	**2,161**
Balance as at December 31, 2013	**888**	**187**	**152**	**730**	**1,957**
Average weighted depreciation rate for year 2012	3.4%	9.2%	20.0%	17.3%	12.3%
Average weighted depreciation rate for year 2013	3.3%	9.2%	20.0%	17.7%	12.5%

*Includes installations and leasehold improvements.

**reclassified

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2014-2058.

7. BUILDINGS AND EQUIPMENT (CONTINUED)

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	137	148	57	62
Balance of provision for impairment loss	11	14	9	12
D. Financial leasing rights:				
Balance of non-capitalized leasehold	13	13	10	10
Balance of capitalized leasehold	174	171	101	100
E. Depreciated balance of not yet registered buildings	227	235	59	62
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	27	25	15	14
G. Depreciated balance of buildings and equipment designated for sale	8	-	8	-
Reversal of impairment loss during the year	3	3	3	3
H. The cost of in-house development of computer software:				
The cost of software put into operation	2,472	2,262	2,215	2,064
Accumulated depreciation	(1,682)	(1,398)	(1,533)	(1,283)
Depreciable amount	790	864	682	781
Accumulated costs in respect of software under development	41	57	15	22
Total cost of in-house development of computer software	**831**	**921**	**697**	**803**
I. Gross value of fully depreciated fixed assets still in use	1,722	1,619	1,122	955
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	6	18	6	14
Cost of equipment	11	16	11	16

	for the year ended December 31		
	2013	2012	2011
	in NIS millions		
K. Details of operating lease contracts*			
Recognized operating lease expenses**			
Consolidated	136	139	131
The Bank	91	87	78

* Details of future non-cancellable less expenses, see note 19.c.1

**Includes minimum lease payment and contingent rent

7A. INTANGIBLE ASSETS AND GOOWILL

	Consolidated		
	Goodwill[1]	Customer relations	Total
	in NIS millions		
Cost			
Balance as at December 31,2011, 2012 and 2013	**283**	**78**	**361**
Amortization and losses on impairment			
Balance as at December 31,2011	**141**	**68**	**209**
Amortization for the year	-	10	10
Balance as at December 31,2012	**141**	**78**	**219**
Balance as at December 31,2013	**141**	**78**	**219**
Book value			
Balance as at December 31,2011	**142**	**10**	**152**
Balance as at December 31,2012	**142**	**-**	**142**
Balance as at December 31,2013	**142**	**-**	**142**

Footnote:
(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an affiliated company, included in the item "investment in affiliated companies").

8. OTHER ASSETS

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	In NIS millions			
Net deferred tax assets (see Note 29 I)	1,561	1,355	953	855
Excess advance tax payments over current provisions	232	85	153	29
Issue costs and discount expenses of subordinated capital notes	17	22	22	28
Income receivable	180	233	74	117
Surrender value of life assurance policies owned by a consolidated subsidiary	598	623	-	-
Assets in respect of the "Maof" market operations	4	14	4	14
Gold deposit	424	101	424	101
Other debtors and debit balances	261	229	94	24
Total other assets	**[1]3,277**	**2,662**	**1,724**	**1,168**

Footnote:
(1) Excluding balances classified as assets held for sale – see Note 8A.

8A. ASSETS HELD FOR SALE

During 2013, among other things, the possibility of sale of the holdings of the Group in Discount Bank Latin America (hereinafter: "DBLA"), a wholly owned and controlled subsidiary of IDB New York was studied. Several potential buyers, noncommittally provided indications as to the consideration they might be ready to pay and have performed due diligence reviews, under limitations prescribed by the Bank. In January 2014, the Bank decided to continue examining the possibility of the sale of DBLA. The Bank`s Board of Directors approved its intention to sell the holdings in DBLA and instructed the Management to continue negotiations in this respect. In view of the above, and noting, among other things, that DBLA is not material at the Group's level, the assets and liabilities of DBLA as of December 31, 2013, have been classified as held for sale.

In the framework of the above mentioned, a provision was recorded for the impairment of available-for-sale securities of DBLA in the net amount of US$3.1 million (approx. NIS 11 million).

As of December 31, 2013, and as of date of signing this report, no sale agreement has yet been formed. Furthermore, a sale of this sort is subject to various regulatory permits. Accordingly, at this stage, it is not possible to assess when such a sale transaction might be concluded, if at all.

Following are data regarding assets and liabilities classified as held for sale (which includes also assets of the Bank in a negligible amount):

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Assets classified as held for sale				
Cash and deposits with banks	1,659	-	-	-
Securities	1,935	-	-	-
Credit granted to the public	-	-	-	-
Buildings and equipment	58	-	8	-
Other assets	28	-	-	-
Total	**4,204**	**-**	**8**	**-**
Liabilities classified as held for sale				
Deposits from the public	3,872	-	-	-
Deposits from banks	15	-	-	-
Other liabilities	44	-	-	-
Total	**3,931**	**-**	**-**	**-**
Guarantees and Unutilized credit line	**129**	**-**	**-**	**-**

9. DEPOSITS FROM THE PUBLIC

A. Type of deposits according to location of raising the deposit and type of depositor

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	17,159	12,880	14,480	10,662
Interest bearing	16,470	(1)12,916	14,832	(1)11,461
Total demand deposits	**33,629**	**25,796**	**29,312**	**22,123**
Time deposits	93,176	(1)99,704	81,194	(1)89,030
Total deposits in Israel*	**126,805**	**125,500**	**110,506**	**111,153**
* Of which:				
Private individuals deposits	75,231	73,915	62,089	60,786
Institutional bodies deposits	5,834	7,998	3,442	5,168
Corporations and others deposits	45,740	43,587	44,975	45,199
Outside Israel (2)				
Demand deposits:				
Non-interest bearing	4,139	4,356	46	25
Interest bearing	11,085	13,362	41	93
Total demand deposits	**15,224**	**17,718**	**87**	**118**
Time deposits	6,899	8,717	585	539
Total deposits outside Israel	**22,123**	**26,435**	**672**	**657**
Total deposits from the public	**148,928**	**151,935**	**111,178**	**111,810**

Notes:

(1) Reclassified in accordance with the directives of the Supervisor of Banks regarding the disclosure of deposits.

(2) Not including balances classified as assets and liabilities held for sale, see Note 8a.

B. Deposits from the public according to size, on a consolidated basis

	December 31	
	2013	2012
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	55,174	55,590
Over 1 up to 10	35,186	35,669
Over 10 up to 100	16,603	14,985
Over 100 up to 500	12,278	10,732
Over 500	29,687	34,959
Total	**148,928**	**151,935**

10. DEPOSITS FROM BANKS

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	1,005	1,025	235	238
Time deposits	511	247	621	979
Acceptances	-	-	-	-
Outside Israel				
Commercial banks:				
Deposits on demand	405	227	113	101
Schedule deposits	1,793	1,668	1,133	1,678
Acceptances	308	192	235	122
Central banks:				
Time deposits	191	361	-	-
Total deposits from banks	**(1)4,213**	**3,720**	**2,337**	**3,118**

Footnote:

(1) Excluding balances classified as assets held for sale – see Note 8A.

11. SUBORDINATED CAPITAL NOTES

			Consolidated		The Bank	
	Average maturity[1]	Internal rate of return[1]	December 31		December 31	
	years	%	2013	2012	2013	2012
			in NIS millions			
Subordinated capital notes not convertible into shares[3]:						
In non-linked Israeli currency	3.99	6.29	3,016	3,019	327	327
In Israeli currency, linked to CPI	5.87	5.19	6,837	7,488	1,488	1,851
Subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI[2]	8.09	5.71	1,811	1,777	1,811	1,777
Total subordinated capital notes			**11,664**	**12,284**	**3,626**	**3,955**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2013.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 9,635 million, listed for trade on the Tel Aviv Stock Exchange (2012: NIS 9,931 million)

12. OTHER LIABILITIES

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Net provision for deferred taxes (see Note 29 I)	19	14	16	14
Excess current tax provisions over advance payments	36	47	-	-
Excess of the provision for severance and retirement benefits over amounts deposited (See Note 16 E, H)	362	403	190	200
Provisions for vacation pay, seniority bonus and retirement benefits	1,199	1,157	963	923
Deferred income	154	173	98	115
Payables for credit card activity	5,663	5,619	2,764	2,631
Allowance for credit losses in respect of guarantees and facilities	184	171	153	134
Expenses payable	746	577	425	251
Liabilities in respect of "Maof" market operations	4	14	4	14
Liabilities stemming from "Market making" activity	99	363	99	363
Other payables and receivables	1,253	1,236	487	383
Total other liabilities	**(1)9,719**	**9,774**	**5,199**	**5,028**

Footnote:
(1) Excluding balances classified as assets held for sale – see Note 8A.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels):

	December 31,2013 and 2012	
	Authorized	Issued and Fully Paid-Up
Ordinary "A" Shares of NIS 0.1 par value each	196,100,000	105,386,930
6% Cumulative Preferred Shares,of NIS 0.00504 each (equivalent to 10 pounds sterling each)	202	202
Total shareholders equity	**196,100,202**	**105,387,132**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% CUMULATIVE PREFERRED AUTHORIZED SHARE CAPITAL:

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to 10 pounds sterling, is entitled to an annual dividend in an amount of NIS 3.44, and at the time of liquidation to a distribution in an amount of NIS 57.42. According to an Opinion issued by the Institute of Certified Public Accountants in Israel, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the item "other liabilities".

C. (1) Increase of the authorized share capital in the years 2006-2008 - creation of a pool of shares for the purpose of "forced conversion events" of subordinate capital notes Series "A" and "B". The special meetings of shareholders convened on December 26, 2006 and September 22, 2008, resolved to increase the Bank's authorized share capital by a total amount of 820 million ordinary A shares of NIS 0.1 par value each. The shares derived from the said increases are intended to be issued to investors in subordinate capital notes (series "A") in a total amount of NIS 2 billion, in the event of a compulsory conversion of the principal amount and/or interest, in certain circumstances that have been determined by the Supervisor of Banks (hereinafter: "compulsory conversion events"; for further details see Note 14 below).

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

In December 2006, May 2007 and September 2008, the Bank issued subordinate capital notes (Series "A") in an approximate par value of NIS 1,147 million (see Note 14(7)a hereunder). In respect of the said capital notes the Bank maintained in its share capital a pool of approx. NIS 470 million ordinary "A" shares (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

In March 2009, the Bank issued approx. 350 million par value of subordinate capital notes Series "B" (see Note 14(7)b hereunder). In respect of the said capital notes, the Bank maintained in its authorized share capital a pool of approx. 267 million shares to be used, if required, in a forced conversion event (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

(2) Increase of the authorized share capital in 2009 - increase for the purpose of raising tier 1 capital

The special meeting of shareholders convened on December 15, 2009 resolved to increase the Bank's authorized share capital by 111 million ordinary A shares of NIS 0.1 par value each. The shares created by the said increase were intended to promote a move for the raising of tier 1 capital. The Bank is committed towards the State of Israel, which at that date owned a 20% of the Bank’s shares, that the shares constituting part of the Bank's authorized share capital, which were created as a result of the said increase in capital, will be utilized for the above purpose and will not be used for any other purposes.

In December 2010 the bank completed a share offer to the public as well as a rights issue.

(3) Increase of the authorized share capital in February 2014

A special general meeting of shareholders held on February 17, 2014, resolved to increase the Bank`s authorized share capital by 294.15 million ordinary "A" shares.

D. SHARE BASED PAYMENT TRANSACTIONS - AN OPTION PLAN FOR OFFICERS OF THE BANK

(1) Phantom plan for the acting Chairman of the Board and for the former President & CEO

Within the framework of an approved remuneration plan in respect of the Chairman of the Board and to the President & CEO who held office until February 19, 2014 (hereinafter : the former President & CEO) (see Note 22 G), it had been determined that the Chairman of the Board and the former President & CEO will be entitled to a phantom type remuneration, dependent on the performance of the Bank’s shares. The Bank granted to the chairman of the Board a quantity of 6,511,628 phantom rights and to the former President & CEO a quantity of 4,878,049 phantom rights (hereinafter: "the phantom rights")

The phantom rights do not entitle any rights to the Bank's shares and/or to any rights whatever stemming from the holding of the Bank's shares, excluding certain adjustments.

The phantom rights shall vest in five equal annual lots, each lot numbering one fifth of the total quantity of phantom rights, so that one annual lot shall vest in each year. The first annual lot pertaining to the Chairman of the Board vested on January 1, 2011, and his last lot shall vest on January 1, 2015. The first annual lot pertaining to the former President & CEO vested on January 1, 2012.

Each annual lot of phantom rights is exercisable, in whole or in part, during a period of two years from date of vesting, thereafter it shall expire and will no longer entitle to any rights (hereinafter: "the exercise period"). The first and second annual lots pertaining to the Chairman of the Board expired on January 1, 2013 and January 1, 2014, respectively. The first annual lot of the options granted to the former President & CEO expired on January 1, 2014.

The plan established circumstances when materialized, the vesting date of each annual lot of phantom rights shall be deferred or an annual lot shall expire. Net loss from ordinary operations in the Bank's most recent quarterly financial statements on a cumulative basis over the four quarters preceding the said vesting date issued prior to the vesting date of the relevant annual lot; A material deviation from the required total capital adequacy ratio in the Bank's most recent financial statements issued prior to the vesting date of the relevant annual lot. In this respect, a deviation at a rate exceeding 20% of the required total capital adequacy ratio will be considered a material deviation. A conversion event of the outstanding balance of principal and interest of subordinate capital notes (of whatever Series) issued by the Bank.

The plan includes provisions regarding the modification of the plan under certain circumstances.

In respect of each exercise notice, the Bank shall pay an amount equal to the difference between the closing market price for each ordinary "A" share of the Bank and the base price, multiplied by the number of phantom rights being exercised.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

For this purpose, the "base price" is the last closing market price of each ordinary "A" share of the Bank on the trading date preceding the date of the approval of the Board of Directors granted to the Phantom plan, with the addition of CPI linkage increments according to the rise of the CPI between the known Index at date of approval by the Board and the known Index at date of exercise of the rights.

The overall fair value of the rights (for five years), calculated by the Black & Scholes model, is NIS 14 million in respect of phantom rights granted to the Chairman of the Board, and NIS 12 million in respect of phantom rights granted to the President & CEO. The above economic value was computed on the basis of the assumption that all the phantom rights would be exercised on the last day of the exercise period determined in respect thereof, on the basis of the market closing price of an ordinary "A" share of the Bank on December 19, 2010 (NIS 8.092), a standard deviation of 32.9% for computation purposes and a risk-free interest rate of between 0% and 1.5% (according to the period). It should be noted that the above calculation serves as an indication only to the cost of the phantom award, and that the actual cost may change, as it is affected by changes in the market price of the shares during the period of the plan.

The expense in respect of the different lots is recognized over the period up to their vesting dates. Until the final date of exercise of the phantom rights, at each reporting date the fair value of the plan is calculated in accordance with market conditions at those dates, the differences being recognized in the statement of income.

According to the terms of the plan, in the event that the former President & CEO terminates his term of office of his own accord, then in addition to the annual lots, which had vested until the end of the early notice period, a proportionate part of the phantom rights included in the annual lot for that year will also become vested on the date ending the early notice period, in accordance with the proportionate part of the period starting with the last vesting date of an annual lot within the framework of the plan (January 1, 2014) and until the end of the early notice period (April 1, 2014).

In accordance with the terms of the plan, the former President & CEO is entitled to exercise the said proportionate part during a period of two years starting with the date ending the early notice period. The remaining phantom rights of the former President & CEO would be exercisable within a period of two years from date of their original vesting.

The phantom rights, which the former President & CEO may realize subsequent to his retirement amount to 2,195,122 rights.

In the financial statements as of December 31, 2010, an expense of NIS 7.4 million was recognized, in respect of the proportionate share of all the tranches granted to the Chairman of the Board. The financial statements as of December 31, 2011, reflected a reduction of NIS 5 million in the expense with respect to the Chairman of the Board, and an expense of NIS 1.5 million in respect of the President & CEO. In the financial statements as of December 31, 2012, an expense of NIS 0.4 million was recognized with respect to the Chairman of the Board, and an expense of NIS 1.2 million in respect of the former President & CEO. The financial statements as of December 31, 2013, reflected a reduction of NIS 1.8 million in the expense with respect to the Chairman of the Board, and NIS 1.93 million in respect of the former President & CEO. (all amounts stated above include payroll taxes).

For further details, see item (6) below.

(2) An option plan for the Bank's officers (2006)

General. In its resolutions of the dates March 26, 2006, July 1, 2006 and July 25, 2006, the Board of Directors approved a stock option plan and the allotment to a Trustee of 9,806,391 non-marketable option warrants in respect of the Bank's nine officers, including the former Internal Auditor and excluding the Bank's former Chairman of the Board and former President & CEO (hereinafter in this Note - "Officers").

The exercise period of two thirds of the warrants allotted under the plan began on January 5, 2009 and ended on January 4, 2011, and the exercise period of the remaining one third began on January 1, 2011 and ended on December 31, 2012, all subject to the provisions specified in the plan as regards the termination of employment of the offerees with the Bank.

The balance of the option warrants expired on December 31, 2012. All payroll expenses had been recognized until the end of 2010 as payroll expenses against a capital reserve.

For further details, see item (5) below.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

(3) Options to additional Members of Management

General. In February 2010, the Board of Directors decided to approve a "phantom option" plan to whom acted at the time as Head of the Corporate Division (hereinafter: "offeree A") and to the Bank's Chief legal Advisor (hereinafter - "offeree "B"), this in continuation to previous resolutions in their respect.

"Phantom option" plan. Offeree A and Offeree B were entitled to a cash amount being the difference between the closing market price of the Bank's ordinary share on the trading day prior to the exercise date, multiplied by the number of shares resulting from the phantom options in respect of which an exercise notice had been given, and the exercise price multiplied by the same number of phantom options (hereinafter: "the amount of cash benefit"). To the amount of the cash benefit was supposed to be added the grossed up tax difference between the marginal tax applied to the offeree member of Management and the capital gains tax that would have been paid by him had he received the option warrants according to an option plan subject to Section 102 of the Income Tax Ordinance (the capital gains option). The grossed up tax amounts and the amount of cash benefit shall be known together as the "phantom award".

The exercise price of each of the phantom options was meant to be determined according to the closing market price of the Bank's ordinary share, on the last trading day prior to the date of appointment as Executive Vice President (hereinafter: "trading day") (NIS 9.3 and NIS 9.17, respectively), together with linkage increments to the CPI (hereinafter: "the exercise price").

Offeree A has been offered 980,639 phantom options and Offeree B has been offered 817,199 phantom options. Offeree A and Offeree B were entitled to phantom options in two portions. In view of the termination of office of Offeree "A" on December 31, 2010, he is not entitled to the phantom options comprising the second lot. The phantom options of the first lot expired on June 30, 2011. The phantom options allotted to offeree "B" in the first lot expired on February 24, 2012. The options allotted to Offeree "B" in the second tranche expired on February 24, 2014.

As of the date of the decision the exercise price was NIS 10.066 and NIS 9.923 respectively (adjusted in respect of a dividend distributed on October 6, 2008).

The expense in respect of the first portion of the phantom options has been recognized in the income statement of the financial report for December 31, 2010 while the expense in respect of the second portion was distributed over the period to its date of entitlement.

The financial statements as of December 31, 2012, included a reduction in expense with respect to the said plan in a negligible amount (2011: reduction of expense in the amount of NIS 0.7 million; 2010 : expense of NIS 0.7 million) (the above amounts include payroll tax).

(4) Awards, the payment of which is linked to the price of the Bank's shares

For details regarding deferred awards, the payment of which is linked to the price of the Bank's shares, see Note 16 K.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

(5) Share based payment of the share option type - Quantitative details

A. Share based payment for the Bank's Officers

	2012		2011	
Changes in options on shares	Number of Options	Weighted average exercise price (1) in NIS	Number of Options	Weighted average exercise price (1) in NIS
Outstanding at beginning of the year	1,438,272	7.88	3,399,550	8.60
Exercised during the year	-	-	-	-
Expired during the year	1,438,272	8.01	1,961,278	9.35
Outstanding at end of the year(2)	-		1,438,272	7.88

Footnotes:

(1) The exercise price is linked to the "known" CPI. In addition to linkage increments, the actual exercise price is subject to adjustments, as detailed above.

(2) Options outstanding at the end of the year divided by ranges of exercise prices:

	December 31, 2011	
	Range 1	Range 2
Exercise price range (in NIS)	7.25	10.05
Number of options	1,111,392	326,880
Weighted average exercise price (in NIS)	7.25	10.05
Weighted average contractual life (years)	0.97	0.50
Of which exercisable:		
Number of options	1,111,392	326,880
Weighted average exercise price (in NIS)	7.25	10.05

B. Share Based payment for the former Chairman of the Board and the former President & CEO

	2011	
Changes in options on shares	Number of Options	Weighted average exercise price in NIS
Outstanding at beginning of the year	6,472,220	9.07
Expired during the year	6,472,220	9.17
Outstanding at end of the year	**-**	**-**
Of which exercisable:	-	-

(6) Liabilities arising from share-based payment transactions - Phantom plans - Quantitative details

Phantom plan for the Bank's officers, the Chairman of the Board and the former President & CEO

	December 31	
	2013	2012
	in NIS thousands	
Total liabilities arising from share-based payment transactions	2,423	5,560
Intrinsic value of liabilities in respect of which the counterparty's right to cash has vested by the end of the year	-	-
Total expense (reversal of expense) charged to the statement of income	**(3,137)**	**1,616**

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

E. DIVIDEND

(1) General

The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) Restrictions established in instructions of the Supervisor of Banks

Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) Distribution of a dividend in respect of preferred shares

On September 9, 2013, the General Meeting of Shareholders resolved to approve as final dividend for 2012, the interim dividend of 6%, paid on December 27, 2012, to the holders of 40,000 6% cumulative preference shares of NIS 0.00504 par value each, in a total amount of GBP 24,000.

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 the said preferred shares, and to recommend to the annual General Meeting of Shareholders, that will convene in 2013, to declare such dividend as final.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS

General. The capital adequacy as of December 31, 2013, is computed according to the standard approach in accordance with Proper Conduct of Banking Business Directive Nos. 201 and 211 regarding "Measurement and capital adequacy" (hereinafter: "Basel II guidelines").

1. Capital for calculating ratio of capital

	31 December	
	2013	2012
	in NIS millions	
Tier 1 capital post deductions	13,282	12,562
Tier 2 capital post deductions	5,663	6,862
Total capital	**18,945**	**19,424**

2. Weighted credit risk assets balance

	31 December	
	2013	2012
	in NIS millions	
Credit risk	117,138	120,686
Market Risk	2,588	2,238
Operational risk	12,217	12,788
Total weighted credit risk assets balance	**131,943**	**135,712**

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

3. Ratio of capital to risk assets

	31 December	
	2013	2012
	in %	
A. The bank		
Ratio of original tier 1 capital to risk assets	9.3	8.6
Ratio of tier 1 capital to risk assets	10.1	9.3
Ratio of total capital to risk assets	14.4	14.3
Ratio of total minimum capital required by the Supervisor of Banks	**9.0**	**9.0**
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its subsidiaries		
Ratio of tier 1 capital to risk assets	10.5	10.5
Ratio of total capital to risk assets	14.6	15.0
Ratio of total minimum capital required by the Supervisor of Banks	**9.0**	**9.0**
2. Discount Bakcorp Inc. (1)		
Ratio of tier 1 capital to risk assets	12.9	14.2
Ratio of total capital to risk assets	13.9	15.4
Ratio of total minimum capital required by the Supervisor of Banks	(2)**8.0**	(2)**8.0**
3. Israel Credit Cards LTD.		
Ratio of tier 1 capital to risk assets	14.9	15.2
Ratio of total capital to risk assets	16.2	16.8
Ratio of total minimum capital required by the Supervisor of Banks	(3)**9.0**	(3)**9.0**

For notes to the table, see after item 4.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

4. Capital components for calculating ratio of capital

	31 December	
	2013	2012
	in NIS millions	
A. Tier 1 capital		
Equity	12,233	11,838
Minority interests in the equity of consolidated subsidiaries	305	296
Complex capital instruments	1,781	1,747
Less goodwill	(142)	(142)
Less net gains on fair value adjustments of available for sale securities	(179)	(415)
Adjustments regarding put options granted to the non-controlling rights holders in a subsidiary	83	81
Less investments in non-realistic companies with significant influence	(799)	(843)
Total tier 1 capital	**13,282**	**12,562**
B. Tier 2 capital		
1. Upper tier 2 capital		
45% of net gains amount, pre related tax influence, on fair value adjustments of available for sale securities	114	297
General provision for doubtful debts	254	254
Innovative hybrid instruments	1,410	1,383
Other upper tier II capital components	2	2
2. Lower tier 2 capital		
Subordinated capital notes	4,682	5,769
3. Amounts deducted from tier 2 capital		
Investments in non-realistic companies with significant influence	(799)	(843)
Total tier 2 capital	**5,663**	**6,862**

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.

5. Expected effect of the adoption of the Basel III instructions as of January 1, 2014

On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy", in order to modify them to the Basel III guidelines. The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions".

In accordance with a circular published on August 29, 2013, regarding "disclosure requirements of Basel relating to the composition of capital", the Bank is required to include in the financial statements for the year 2013, disclosure regarding the expected effect of the implementation of the Basel III instructions.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

Stated hereunder is the expected effect of the adoption of the Basel III instructions as of January 1, 2014, this in accordance with the balances as of December 31, 2013. In computing the expected effect of the adoption of the Basel III instructions, as stated, the transitional instructions issued by the Supervisor of Banks had been taken into Account.

	As of January 1, 2014
	in NIS millions
Common equity tier 1 after supervisory adjustments and deductions	12,364
Total comprehensive capital after supervisory adjustments and deductions	19,624
Total weighted risk assets balances	138,541
Ratio of common equity tier 1 to risk assets	8.9
Ratio of total capital to risk assets	14.2
Ratio of common equity tier 1 required by the Supervisor of Banks	(1)9.0
Total capital adequacy ratio required by the Supervisor of Banks	(1)12.5

Footnote:
(1) Starting with January 1, 2015.

It should be noted, that whereas the data presented above is as of January 1, 2014, it reflects deductions, in accordance with the transitional instructions, amounting to one quarter of the expected annual deduction for 2014 (in accordance with the approval of the Supervisor of Banks for a linear quarterly deduction during the year).

6. **The core capital ratio** as of December 31, 2013, reached a ratio of 9.3% (December 31, 2012: 8.6%). It should be noted that in view of the agreement to be signed between FIBI and the Bank and in view of the approvals granted in respect thereof (see Note 6 E (1) above), 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.

Core capital target. The resolution of the Board of Directors regarding the "Strategic plan for the Discount Group for the years 2011-2013", also determined a target for the core capital at the rate of 8.5% by the end of 2013.

Guideline in the matter of the minimum core capital ratios. On March 28, 2012, the Supervisor of Banks delivered to all banking corporations a guideline stating his intention to determine a higher minimum core capital ratio than that required at the present time. According to this guideline, all banking corporations will be required to attain a minimum core capital ratio of 9% as from January 1, 2015. In addition, a banking corporation, the total outstanding Balance sheet assets of which on a consolidated basis comprise at least 20% of the total outstanding Balance sheet assets of the banking industry in Israel, will be required to attain a minimum core capital ratio of 10% as from January 1, 2017. This additional provision does not apply to the Bank.

The core capital ratio is supposed to be computed in accordance with the instructions of Basel III and adjustments to be determined by the Supervisor of Banks.

Adoption of Basel III instructions. As stated, on June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank will be required to attain, is 12.5%.

The Bank prepared 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, and the Bank is acting toward its implementation.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

7. Clarification regarding the recognition of hybrid capital instruments

A. Clarification regarding the recognition of hybrid capital instruments issued prior to the Basel II guidelines taking effect

At the Bank's request, the Supervisor of Banks clarified in a letter dated March 3, 2010, that until otherwise determined, the specific terms established for the recognition of hybrid capital instruments, as detailed in the approvals granted for each issue of the said instrument, continue to apply with respect to the particular issue even after the Basel II guidelines taking effect.

The Supervisor further clarified, to avoid doubt, that whenever the Bank is required to maintain capital adequacy ratios (overall, primary, original or other), including as a precondition for the recognition of hybrid capital instruments as a part of the Bank's capital base, such ratios shall not be changed, despite the change made from time to time in the criteria for the issue, and that they will be computed in accordance with the calculation method in practice at that date.

The above stated relates to issues made by the Bank as detailed in Sections 8 and 9 hereunder.

B. On December 25, 2013, the Supervisor of Banks approved the removal of the condition for the non-recognition of hybrid capital instruments (hybrid tier 1 and upper tier 2) in cases where the original tier 1 capital ratio falls below 6.5%.

8. The issue of hybrid tier 1 capital

A. General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in items B and C below have been recognized as hybrid tier 1capital under the Basel II rules. The said capital notes are not qualified in terms of the Basel III instructions, though according to the transitional instructions they are recognized in the transitional period as additional tier I capital, and will be gradually eliminated in the years 2014-2021.

B. Issue of hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement.

The Governor of the Bank of Israel approved that the abovementioned subordinate capital notes will be deemed hybrid capital instruments and will be recognized as part of the Bank's tier 1 capital (see item A "General" above). On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

On September 22, 2008, the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank's Tier 1 capital (see item A "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the following conditions:

a. The capital notes are to be issued under terms identical to those of the capital notes issued as part of the existing Series;

b. The rate of the Hybrid Tier 1 Capital is not to exceed 15% of the Bank's total Tier 1 capital;

c. The capital notes are not and will not be pledged in favor of the Bank or in favor of its subsidiary companies.

The Bank complies with the said conditions.

Terms of the subordinated capital notes - Series "A". The subordinate capital notes were issued for a period of 99 years and the principal will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

The Bank is entitled, at its own discretion, to redeem the subordinate capital notes prematurely, after a minimum of 15 years from the issuance date, subject to the conditions stated in the notes and to approval from the Supervisor of Banks.

The subordinated capital notes will bear linked interest at the rate of 5.10%. In the event that the capital notes are not prematurely redeemed after fifteen years, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate of 1% over the original spread determined for the first fifteen years (namely 2.495%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 398.5 million of the Bank's ordinary "A" shares.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank’s assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

Recognition of the capital notes as upper tier 1 capital. The Governor of the Bank of Israel approved the Bank’s inclusion of the capital notes as upper tier 1 capital (see item A "General" above).

Following are the basic conditions for recognition of the capital notes as upper tier 1 capital:

(1) The ratio of capital to the Bank's risk assets should not fall below 10% as of the date of issuance of a compound capital instrument.

(2) Hybrid tier 1 capital is required to comply with the designated conditions for compound capital instruments, as defined in Proper Conduct of Banking Business Directive No. 311, included in secondary capital.

(3) Structure of the issuance - The issuance should be implemented directly only by the Bank itself.

(4) Quantity restriction - The ratio of the hybrid tier 1 capital should not exceed 15% of the total tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 311, including the hybrid tier 1 capital (hereinafter: "overall tier 1 capital").

(5) Repayments - Only capital notes fully paid up in cash will be deemed hybrid tier 1 capital.

(6) Non-accrual interest - In "special circumstances", as defined below, on the due date for payment of interest, such interest will not be payable and the entitlement of holders of the capital notes to interest will expire. Interest not paid as a result of existence of the special circumstances will not accumulate and will be erased after the payment date. Following are the special circumstances:

(a) The Bank's Board of Directors has determined that the Bank is unable to honor its obligations, which rank higher than the subordinate capital notes (series "A") or are equivalent thereto, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank’s annual or interim financial statements, respectively, to notes to the financial statements regarding the Bank’s inability to fulfill its obligations, as stated above;

(b) The Bank's Board of Directors has determined that probability exists that payment of the interest would create a situation in which the Bank will be unable to settle its existing and/or expected liabilities, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank’s annual or interim financial statements, respectively, to notes to the financial statements regarding the probability of such situation;

(c) During six consecutive quarters, the financial statements for the last of which were published prior to the date for payment of the interest, the Bank did not report on accrued net income (i.e. if the simple addition of the quarterly amounts of the net earning or losses reported in the Bank’s financial statements, for six consecutive quarters, constituted a negative amount);

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

(d) The Bank's last financial statements published prior to the date of the interest payment indicate that the Bank has no distributable profits.

(7) Allotment of shares in respect of interest - In the case of erasure of interest, as described in 6 above, the Bank is empowered to issue shares to holders of the capital notes against the erased interest. Such shares may be issued only in respect of interest not paid in the same year, and shares may not be issued in respect of interest erased in prior years.

(8) Sustaining of losses - The Bank is required to convert all outstanding balances of principal and interest in respect of the subordinate capital notes into the Bank's ordinary "A" shares, of the circumstances described below occur:

(a) If the ratio of the overall tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a particular quarter below 6%, and does not recover within 90 days from the date of issue of the said financial statements, to a rate of at least 6%, conversion will be implemented immediately;

(b) If the ratio of the tier 1 capital to the Bank's risk assets, excluding the hybrid tier 1 capital (hereinafter - "the original tier 1 capital"), as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5.5%, and does not recover until the date of publication of the financial statements for the following quarter to a rate of at least 5.5% (even if the ratio of the overall tier 1 capital exceeds 6% at that time), conversion will be implemented immediately;

(c) If the ratio of the original tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 6% but not lower than 5.5%, and does not recover to a rate of at least 6% until the end of the two quarters following that quarter, as stated in the Bank's interim financial statements, conversion will be implemented immediately (even if the ratio of the overall tier 1 capital exceeds 6% at that time), unless the Supervisor of Banks directs otherwise;

(d) If the ratio of the original tier 1 capital, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5%, immediate partial conversion will be implemented in an amount that would recover the Bank's original primary capital ratio published for that quarter to at least 5%;

(e) If the Bank's retained earnings become negative;

(f) If the Bank's independent auditors drew attention in their audit report or review report attached to the annual financial statements or to the Bank's interim financial statements, respectively, to notes to the financial statements which express significant uncertainties regarding the continued existence of the Bank as a "going concern".

(9) Change in terms, premature redemption, and/or increase in interest rate - the subordinate capital notes will be issued for a period of 99 years and may be redeemed at the discretion of the issuer, subject to advance written approval from the Supervisor of Banks, after a minimum period of 15 years. Additionally, other terms of the subordinate capital notes may not be changed without advance written approval from the Supervisor of Banks.

Without detracting from this condition, one step-up of interest by up to 100 basis points over the original margin determined for the first period of 15 years is enabled, after at least 15 years from the issuance date.

(10) Subordination - Except for the rights of creditors in accordance with similar capital instruments, the capital notes are subordinate to claims of all other creditors, including holders of capital notes issued as secondary capital.

(11) Collateral - The liabilities according to the capital notes are not secured by any collateral.

(12) Issuance to related entities - The Bank will not issue subordinate capital notes to provident funds and/or mutual funds controlled and/or managed by the bank (insofar as this condition is at the Bank's discretion in the primary allocation).

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

(13) Transparency - The terms of the issuance will be clear and disclosed, including full disclosure in the Bank's published annual financial statements of all conditions of the hybrid tier 1 capital, inter alia, the following details regarding the compound primary capital: amount, components, share in the total overall primary capital and principal characteristics.

Regarding recognition of the capital notes as upper tier 1 capital, the Board of Directors adopted a capital adequacy policy according to which the Bank will maintain an original primary capital adequacy ratio (excluding the compound primary capital) of at least 6.5%, at all times.

C. Issue of hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

On March 26, 2009 the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank's Tier 1 capital (see item A "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the following conditions:

(a) The rate of the Hybrid Tier 1 Capital is not to exceed 15% of the Bank's total Tier 1 capital;

(b) The ratio of the original tier 1 capital is not to fall below 6.5% at any time (see item 7 B above);

(c) The capital notes are not and will not be pledged in favor of the Bank or in favor of its subsidiary companies.

The Bank complies with the said conditions.

Terms of the subordinated capital notes - Series "B". The principal on the subordinate capital notes will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly. The Bank shall be entitled to announce, at its own discretion, the early redemption of the principal sum of the subordinated capital notes and of the linkage increments and interest accrued as of date of the actual early redemption, subject to the terms specified in the note, and subject to the prior approval of the Supervisor of Banks.

The subordinated capital notes will, in the period from date of issue and until December 31, 2021 (hereunder: "the first interest period"), carry linked interest at the rate of 8.7%. In the event that an early redemption will not occur on December 31, 2021, then the subordinated capital notes will carry interest at a variable rate to be fixed in advance for each period of five years, with the addition of a "step up" interest of 1% over the original margin fixed for the first interest period (namely, 7.13%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 267 million ordinary "A" shares of the Bank, will be allocated in respect of the issued capital notes, as stated.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank's assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

The terms for recognition of the subordinated capital notes (series "B") as hybrid tier 1 capital. The basic terms determined by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 1 capital (see item A "General" above) are identical to the terms determined for Series "A" (as detailed in Section A above) with the following changes:

- The definition of "special circumstances" no longer includes the case of six consecutive quarters showing a loss (subsection (6) C).
- The following case was added to the definition of "special circumstances": where the Supervisor has instructed the cancellation of interest payments after realizing that a real danger exists that the interest payment might lead to a situation where the Bank would be unable to meet its obligations.
- Within the framework of the definition of cases where, if realized, an immediate conversion of the outstanding balance of principal and interest of the subordinated capital notes into the Bank's ordinary "A" shares would be effected, the definition of the term relating to the reduction in the proportion of the original tier 1 capital to below 5% (Section (8) (d)), was changed as follows: in the event that the proportion of the original tier 1 capital, as stated in the financial statements or in the Bank's interim financial statements, once in every quarter, fell in a particular quarter below 5%, the said conversion shall be effected immediately.

For details regarding clarifications in the matter of hybrid capital instruments, see item 7 above.

9. THE ISSUE OF UPPER TIER 2 CAPITAL

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

Terms of the subordinated capital notes to serve as upper tier 2 capital. The subordinated capital notes will be issued for a period of 49 years; the principal sum of the subordinated capital notes will be repayable in one amount on a date to be determined in the first shelf offer report for the relevant series. The principal and interest of the subordinated capital notes are linked to the CPI. Interest on the said subordinated capital notes will be paid four times a year.

The Bank shall be entitled, at its discretion, to prematurely redeem the subordinated capital notes, starting with the end of the period to be announced in the shelf offer report and which in no case shall be shorter than ten years (hereinafter: "the initial period"), subject to the terms specified in the notes and subject to the approval of the Supervisor of Banks.

Until the end of the initial period, the capital notes will bear linked interest to be determined in the tender. In the event that the capital notes are not prematurely redeemed at the end of the initial period, then in the period beginning with the end of the initial period, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate to be determined in the first shelf offer report, as stated.

The rights of the holders of the subordinated capital notes shall be deferred as regards claims by all other creditors of Discount Manpikim and of the Bank of any class, with the exception of holders of capital notes which constitute and/or will constitute from time to time the hybrid tier 1 capital issued by the Bank.

Terms for the recognition of the subordinated capital notes as upper tier 2 capital. Below are details of the terms specified by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 2 capital (see "General" above):

1. Capital adequacy at date of issuance - at date of issue of the hybrid capital instrument, the ratio of capital to the Bank's risk assets shall not fall below 10%.
2. Original tier 1 capital ratio - the original tier 1 capital ratio shall not fall at any time below 6.5% (see item 7 B above).

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

3. Directive 311 - hybrid tier 2 capital must comply with the terms determined for hybrid capital instruments as defined in Section "C" (Definitions) of annex "A" to Proper Conduct of Banking Business Directive 311 - "Minimum capital ratio", included in tier 2 capital.
4. During the five years prior to the final redemption date, the hybrid capital instruments are to be included in the tier 2 capital as though they were subordinated capital notes, in accordance with Section 2(b)(2) of annex "A" to Proper Conduct of Banking Business Directive 311 - "Minimum capital ratio".
5. Structure of the issue - the issue shall be effected by the Bank or by a subsidiary thereof.
6. A quantitative restriction - the tier 2 capital may comprise up to 100% of the tier 1 capital and subordinated capital notes up to 50% of the tier 1 capital that was not issued in respect of market risks. This means that the upper tier 2 capital may reach up to 100% of tier 1 capital, though in actual fact, the potential for the issue of upper tier 2 capital ranges between the total amount of the tier 1 capital and the volume of the capital notes.
7. Redeamability - Only capital notes that have been fully paid up in cash may be considered upper tier 2 capital.
8. Collateral - the liability in accordance with the capital notes may not be secured by collateral.
9. Pledge on capital notes - the capital notes may not be financed and may not be pledged as security for a loan granted by the Bank or a subsidiary thereof.
10. Suspension of interest payments - Interest payments shall not be made if on their due date "suspending circumstances" prevail, as the term is defined below, and the payment thereof shall be deferred for unlimited periods. The suspending circumstances are:
    (a) The Bank's Board of Directors has determined that the Bank is not able to honor on their due dates its liabilities that have preference over or that are equal to the subordinated capital notes, or where the Bank's independent auditor in his opinion or review report appended to the Bank's financial statements or the interim financial statements, as the case may be, has drawn attention to notes to the financial statements concerning the Bank's inability to honor its liabilities, as above.
    (b) The Bank's Board of Directors has determined that reasonable concern exists that the payment of interest will cause a situation where the Bank will not be able to meet its existing and/or expected liabilities, or where the Bank's independent auditor in his opinion or review report appended to the financial statements or the Bank's interim financial statements, as the case may be, has drawn attention to notes to the financial statements mentioning the existence of such reasonable concern.
    (c) Where according to the Bank's financial statements last issued prior to the interest payment date, the Bank has no distributable earnings.
    (d) The Supervisor of Banks has ordered the suspension of interest payments after realizing that real concern exists that the payment of interest will cause a situation where the Bank would not be able to meet its liabilities.
11. Settlement of suspended interest payments - if at the date determined for the settlement of whatever interest payment it becomes clear that a change has taken place in the Bank's financial stability in a manner that suspending circumstances, as described in Section 10 above, exist, then payment of such interest would be suspended until such time as one or more of the conditions detailed hereunder exist, and provided that none of the suspending circumstances is still in existence and/or has ceased to exist.

    These are the circumstances where upon the first coming into existence any of which, and subject to a determination by the Bank's Board of Directors that suspending circumstances no longer exist at that time, the suspended interest payments may be paid together with interest and linkage increments thereon:
    (a) The Bank has declared the payment of dividend to the holders of any class of its shares.
    (b) The Bank has announced a premature redemption, in full or in part, of the principal sum of the subordinated capital notes, or has redeemed the principal sum of the subordinated capital notes, in full or in part.
    (c) A liquidation order has been issued against the Bank, however in such a case, settlement of the suspended interest payments is subject to the settlement of all the Bank’s liabilities that take precedence over the principal and interest of the subordinated capital notes, or subject to another arrangement reached with the Bank's creditors that are preferable to the holders of the subordinated capital notes.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

12. Non-payment of dividends - the Bank shall not pay a dividend to its shareholders so long as all the suspended interest payments have not been settled in full, this whether the declaration of the dividend had been made prior to the announcement by the Bank that suspending circumstances emerged or made after such an announcement.
13. Premature redemption by the holder - the holder may not redeem the subordinated capital notes prematurely.
14. Premature redemption by the Bank - subject to restrictions detailed hereunder, the Bank may decide, based upon its judgment with no option to the holders of the subordinated capital notes, to prematurely redeem the principal of the subordinated capital notes, in full or in part, as the case may be, as well as the linkage increments and interest accrued in respect of the subordinated capital notes to date of the actual premature redemption, in respect of the principle of the subordinated capital notes this upon all the following conditions being materialized cumulatively:
    (a) At least ten years have elapsed since the date of issue of the subordinated capital notes and the actual date of premature redemption.
    (b) Premature redemption may only be made after receiving the prior approval of the Supervisor of Banks and on condition that the instrument shall be replaced by other capital of an identical or higher caliber, unless the Supervisor has determined that the capital adequacy of the corporation is adequate in relation to its risks.
    (c) Effecting the premature redemption will not bring about any of the suspending circumstances, as defined in section 10 above, immediately after execution of the resolution for the premature redemption, and the Bank's Board of Directors has determined that even considering the premature redemption it does not expect suspending circumstances to emerge in the course of the twelve months following the date of the premature redemption.
15. Change in terms, premature redemption and/or determination of an interest mechanism - the capital notes are issued for a period of 49 years.
    The terms of the capital notes may not be altered without the prior approval in writing of the Supervisor of Banks. Without derogating from this provision, and following at least ten years from date of issue (hereinafter: "the initial period"), a step-up of interest is permitted only once in the instrument's life time. The rate of increase in the interest shall not exceed 100 basis points less the swap spread between the initial index base of the increased interest and the stepped-up index basis, or - 50% of the initial credit margin less the swap spread between the initial index base and the stepped-up index base.
    Following the end of the initial period and if the subordinated capital notes are not prematurely redeemed at the end of the initial period, the capital notes shall bear interest at a variable rate in accordance with a predetermined and fixed basis to be established by the Trustee for the notes.
16. Subordination - The Bank's obligation for the payment of principal and interest of the capital notes shall be subordinate to all its other liabilities of whatever class, including liabilities towards the holders of subordinated capital notes issued or to be issued in the future by the Bank, and shall only take precedence over the rights of the Bank's shareholders to the reimbursement of the Bank's surplus assets upon liquidation, and over the rights of holders of other securities, the Bank's obligation in respect of which is recognized as the Bank's tier 1 capital, if and when the Bank will issue such securities. The status of the Bank's obligations, as stated above, shall not be altered as a result of the fact that the capital notes shall no longer be considered the Bank's tier 2 capital, for whatever reason. The Bank's obligation to pay the principal of the capital notes and the interest thereon stands parri passu with additional securities and/or additional securities that may be issued by the Bank or its subsidiaries and approved by the Supervisor of Banks as "hybrid capital instruments".
17. Allotment to related parties - The Bank shall not allot (to the extent that the matter depends on the Bank upon the initial issue) the hybrid capital notes to provident funds and/or mutual funds controlled and/or managed by the Bank.
18. Transparency - The terms of issue will be clear and disclosed. In this respect, full disclosure shall also be given in the Bank's annual financial statements issued to the public, to the terms of the hybrid tier 2 capital. Such disclosure will include, among other thing, the following details regarding the hybrid capital: its amount, composition, its share as a percentage of the total inclusive tier 1 capital as well as it principal characteristics.

For details regarding clarifications in the matter of hybrid capital instruments, see item 7 above.

15. PLEDGES

A. IDB New York has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2013 amounted to US$1,530 million (NIS 5,311 million) [December 31, 2012: US$1,666 million (NIS 6,219 million)].

In addition, IDB New York pledged loans in favor of the Federal Home Loan Bank, in the amount of US$104 million (NIS 360 million) as of December 31, 2013 as a collateral for deposits received from it [as at December 31, 2012: US$143 million (NIS 535 million)].

B. IDB New York has sold securities, under buyback terms, in the amount of US$1,242 million (NIS 4,313 million) as of December 31, 2013 [as at December 31, 2012: US$1,738 million (NIS 6,488 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million.

D. Discount Leasing Ltd. registered in favor of the State of Israel, a first floating charge on its assets, unlimited in amount, in respect of investment grants received.

E. Note 19 C 4 below describes the risk fund established by the Ma’of clearing house. The Bank’s share in the fund, deriving from the volume of the clearing activity on behalf of the Bank’s customers as of December 31, 2013, amounted to NIS 21 million (December 31, 2012: NIS 21 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank’s customers and in respect of the Bank's activity itself (nostro) as of December 31, 2013, was NIS 122 million (2012: NIS 69 million).

According to the Memorandum and Bye Laws of the Ma’of clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Ma’of clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Ma’of Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Ma’of Clearing House at the Stock Exchange Clearing House and at an account in the name of the Ma’of Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Ma’of transactions to which it is responsible towards the Ma’of Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts. Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Ma’of Clearing House, the amount of which at December 31, 2013, totaled NIS 876 million (December 31, 2012: NIS 854 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Ma'of Clearing House. The value of the collateral in favor of the Ma’of Clearing House, as stated, amounted on December 31, 2013, to NIS 73 million (December 31, 2012: NIS 73 million). In addition, pledged in favor of the MAOF Clearing House were cash the balance of which amounted at December 31, 2013, to NIS 2 million (December 31, 2012: NIS 2 million).

Balance of collateral provided to the Ma'of Clearing House:

	Balance as of December 31, 2013	Highest balance during the year 2013	Average balance* in 2013	Balance as of December 31, 2012
	In NIS millions			
Cash	7	9	8	7
Securities	944	952	909	922

* The reporting is made on the basis of the month-end balances.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

15. PLEDGES (CONTINUED)

G. IDB (Swiss) Bank has pledged assets in the amount of CHF 0.4 million (December 31, 2012: CHF 0.5 million), as collateral for credit facilities in the amount of US$0.5 million.

H. As detailed in Note 19 C 5 hereunder, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearinghouse (hereinafter: "the Clearinghouse" or "Stock Exchange Clearinghouse"), the Bank pledged as security for its obligations towards the Clearinghouse all the Bank's rights in the security deposit managed by the Clearinghouse (in which the Bank deposits securities) and all its rights in an account opened with another bank. The value of the collateral amounted on December 31, 2013, to NIS 70 million (as at December 31, 2012: NIS 171 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2013, amounted to NIS 13 million (December 31, 2012: NIS 11 million).

Balance of collateral provided to the Stock Exchange Clearing House:

	Balance as of December 31, 2013	Highest balance during the year 2013	Average balance* in 2013	Balance as of December 31, 2012
	In NIS millions			
Cash	18	20	19	17
Securities	65	167	110	165

* The reporting is made on the basis of the month-end balances.

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the new settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

At the end of July 2007, the Bank deposited with the said account bonds valued, as at December 31, 2013, at NIS 3.56 billion (December 31, 2012: NIS 3.51 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds in the amount of NIS 507 million (December 31, 2012: NIS 471 million).

Details of the pledge agreement:

	Balance as of December 31, 2013	Highest balance during the year 2013	Average balance* in 2013	Balance as of December 31, 2012
	In NIS millions			
Pledged securities (market value)	4,071	4,241	4,033	3,981

* The report is based on outstanding monthly balances.

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

The Bank and MDB did not participate in the years 2012-2013 in the said credit tenders.

15. PLEDGES (CONTINUED)

Details of the deposits:

	Balance as of December 31, 2013	Highest balance during the year 2013	Average balance* in 2013	Balance as of December 31, 2012
	In NIS millions			
Deposits with the Bank of Israel	16,086	19,188	14,428	14,175

* The report is based on outstanding monthly balances.

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2013 was NIS 102 million (December 31, 2012: NIS 387 million).

L. The Bank enters into Credit Support Annex (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits to the other party by way of a pledge, until the date of the next measurement. As of December 31, 2013, the Bank allocated in favor of various banks deposits in a total amount of NIS 868 million (December 31, 2012: NIS 563 million).

M. The Bank deposits bonds with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. The value of such collateral at December 31, 2013 amounted to NIS 16 million (December 31, 2012: NIS 41 million). The highest balance of the collateral in 2013 was 56 million, while the average balance was NIS 27 million.

N. The sources and use of the securities that had been received and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect:

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	In NIS millions			
The sources:				
Securities against cash	99	387	99	387
Total	**99**	**387**	**99**	**387**
The uses:				
Securities sold under buy-back arrangements	4,313	6,488	-	-
Other	426	704	426	704
Total	**4,739**	**7,192**	**426**	**704**

O. Details of securities pledged to the lenders:

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	In NIS millions			
Available for sale securities	3,142	3,544	1,748	2,246
Held-to-maturity bonds	2,905	2,499	2,810	2,367
Total	**6,047**	**6,043**	**4,558**	**4,613**

These securities have bee deposited as collateral with the lenders, who are not permitted to sell or pledge them.

16. EMPLOYEE BENEFITS

A. (1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month's salary for each year of employment, is fully covered by deposits with severance pay funds, by insurance policies and pension funds and by a provision recorded in the Bank`s books. The redemption value of the insurance policies and amounts accumulated in pension funds are not included in the balance sheet since they are neither controlled nor managed by the Bank or its subsidiaries.

(2) As detailed in Note 1 D 15 above, the liability for payment of severance pay to such group of employees is presented in the financial statements at the higher of the amount of liability based on an actuarial computation, and the amount of liability computed by multiplying the monthly salary of the employees by the number of years of employment, as required by Opinion No.20 of the Institute of Certified Public Accountants in Israel.

(3) Members of the Bank's Management are entitled to the customary severance payments, while several of whom are entitled also to an "adjustment" bonus of between 4 to 8 months' salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see item K below, in the matter of the approved remuneration policy). The pension liability of foreign subsidiaries, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(4) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months' salaries, and in respect of which adequate provisions have been included.

(5) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

B. A number of the Bank's employees and those of its consolidated banking subsidiaries in Israel are entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The capitalization rate, set by the Supervisor of Banks, on an actuarial computation is 4%. The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 2.5% per year. The financial statements include provisions for long-service bonuses totaling: Consolidated - NIS 436 million (2012: NIS 419 million); the Bank - NIS 321 million (2012: NIS 315 million).

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation" days, according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of regular employees as from January 1, 2012, shall not be entitled to a "jubilee award".

C. Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Law - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of deferred payments. The financial statements include provisions for vacation pay as follows: Consolidated - NIS 160 million (2012: NIS 137 million); and for the Bank - NIS 124 million (2012: NIS 104 million).

D. Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis using a discount rate of 4%, and is recognized over the period of employment of the employee. In addition, approx. thirty employees who accepted early retirement exchanged their retirement award with a pension for a determined period. This liability is presented at its discounted value based on a discount rate of 4%.

The amount of the provision at balance sheet date: Consolidated - NIS 603 million (2012: NIS 601 million); the Bank - NIS 518 million (2012: NIS 504 million).

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees of the Bank who were engaged as or converted to the status of regular employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

16. EMPLOYEE BENEFITS (CONTINUED)

E. Provision and deposits due to employees' severance pay and allowance payments are as follows:

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Deposits	2,372	2,262	2,082	1,972
Provision	2,690	2,580	2,272	2,172
The excess of provision over the deposits is included in the item other liabilities (Note 12)	**318**	**318**	**190**	**200**

F. Several of the subsidiaries have adopted employee remuneration plans, according to which the General Managers and/or other employees of these subsidiaries are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

G. 124 employees from among the retirees within the framework of the 2011 retirement plan, have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;
- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

H. IDB New York has a liability for the payment of pensions to its employees, in respect of which it has established a pension fund, in which contributions by the employer and by the employees are deposited. The annual deposits with the fund are based on calculations made by an independent actuary.

Following are principal details concerning the said liability:

	As at December 31	
	2013	2012
	in US$ millions	
Amount of provision	46	54
Amount of deposits	33	31
Excess of provision over deposits included in Other liabilities (Note 12)	**12**	**23**

	%	%
The annual discount rate	4.87	3.98
The anticipated annual rate of return on the funds assets	7.10	7.90
The annual rate of increase in employees payroll	4.00	4.25

16. EMPLOYEE BENEFITS (CONTINUED)

I. Remuneration plan for members of the Bank's Management (2011-2013)

1. General

Subsequent to having already been approved by the Audit Committee of the Board of Directors, after adopting the recommendation of the Payroll and Remuneration Committee of the Board, the Bank's Board of Directors resolved on August 31, 2011, to approve the remuneration plan for members of the Bank's Management and for the Bank's Internal Auditor, which includes an annual award and a long-term award. The remuneration plan is a three year plan covering the years 2011-2013.

The remuneration plan states that its principles will apply also, mutatis mutandis, as part of the remuneration plan for senior executives of the Bank's subsidiaries, subject to approval of the authorized organs of the said subsidiaries. And indeed, the Bank's principal subsidiaries in Israel have determined remuneration in accordance with the same principles, mutatis mutandis.

2. Annual award to members of Management (excluding the Chief Risk Officer, the internal auditor and the Chief Accountant)

(A) General

The annual award shall comprise an award based on a formula, computed according to attainment of quantitative indices (hereinafter: "computed award"), and an additional award to be determined at the discretion of the Bank's President & CEO (Hereinafter: "discretionary award").

The indices serving as a basis for the computation of the annual award shall be based on the goals set in the Bank's work plan for the years 2011-2013. The said annual award shall be approved in each year by the Audit Committee and the Board of Directors, subject to any law.

Payment of the annual award by installments. Payment of the annual award in respect of a particular calendar year shall be made in three installments: 60% of the annual award shall be paid no later than thirty days following the publication of the Bank's financial statements for the year in question. Two installments of 20% each shall be deferred and paid (linked to the CPI) following the publication of the financial statements for each of the two years following the said calendar year.

If in any award year not all basic conditions for the award are fulfilled, then all the deferred award installments that should have been paid on the dates set for payment in respect of the year of award shall be cancelled and not paid.

(B) Computed award

Maximum computed award. The annual computed award in respect of each Management member shall be limited to an amount not exceeding eight monthly salaries.

Basic conditions for entitlement to the computed award. Entitlement to an award in respect of a particular calendar year shall be subject to the fulfillment of all following conditions:

(1) The Bank's total capital adequacy ratio and the core capital ratio, according to the Bank's consolidated annual financial statements for that year, shall not fall below the total capital adequacy ratio and the core capital ratio, respectively, as determined in the work plan for that calendar year;

(2) The difference between the targeted return on risk assets (in percentages) as determined in the work plan for the year of the award, and the actual return on risk assets (as defined in the work plan) (hereinafter: "return on risk assets differential") shall be at a rate lower than 3%;

(3) The Bank shall display in its consolidated annual financial statements for the year of the award, net earnings of at least 75% of the amount of net earnings determined in the work plan for that year.

Computation of the computed award. This award is to be computed on the basis of three indices based upon the Bank's performance (hereinafter: "the quantitative indices") and upon an additional index to be determined by the Bank's President & CEO in respect of each Management member (hereinafter: "the additional index").

The quantitative indices. Each quantitative index shall have a targeted goal, based on the goal approved for this index by the Board of Directors as part of the work plan for that year, and which in accordance therewith, minimum and maximum goals shall be computed for this index.

16. EMPLOYEE BENEFITS (CONTINUED)

Attainment of the minimum goal, the targeted goal or the maximum goal in a particular year, shall entitle the member to 50%, 80% or 112.5% of the maximum computed bonus relating to that index, respectively. Any result between the minimum goal and the targeted goal, and any result between the targeted goal and the maximum goal, shall entitle the member to a percentage of that part of the maximum computed award applying to that index, based on a linear computation (between 50% and 80%, and between 80% and 112.5%, respectively).

Proximate to the beginning of each year, the Board of Directors shall determine in the work plan the targeted goals for that year. The manner of measurement of such goals shall be identical to that by which they are being measured within the framework of the work plan.

If, during a bonus year, the Bank's Board of Directors decides to change the goals in the Bank's work plan for that year, thereby impacting the indices that constitute the basis for the computed award, the Bank's Board of Directors will decide whether - as a consequence thereof - it is necessary to also adjust the goals used for the purpose of calculating the computed award for the members of management with respect to said year.

Following are the quantitative indices:

(1) Return on risk assets.

(2) Efficiency ratio. This index will be computed according to the manner in which the efficiency ratio is measured and reported in the consolidated financial statements.

(3) Operating and other income. This index is computed as the total of operating and other income in a particular calendar year, in accordance with the Bank's consolidated financial statements for that year.

The additional index. At the beginning of each award year, the Bank's President & CEO shall recommend, separately for each member of Management, an additional index. This additional index shall focus on the challenges facing the Division/Group which this member heads in the particular year. At his discretion, the President & CEO may recommend a different or identical index for all or part of Management members. The additional index as well as the goals on which it is based, as determined by the Bank's President & CEO, shall be brought at the beginning of the calendar year for approval of the Audit Committee and of the Board of Directors. To the extent that attainment of the determined index may be quantitatively computed – then the targeted goal, the minimum goal and the maximum goal relating to each additional index that is determined, will also be determined at the beginning of the award year, and attainment thereof shall be computed as detailed above regarding the quantitative goals. To the extent that a qualitative index is determined (attainment thereof cannot be quantitatively computed) - attainment of the goal shall be determined at the discretion of the President & CEO, where if the President & CEO is of the opinion that a certain member of Management is entitled to a share of the computed award in respect of this index, the President & CEO will determine a share of between 50% and 112.5% of the maximum rate of the computed award related to this index.

Notwithstanding the above and in any event, the comprehensive computed award in respect of each member of Management in the award year shall not exceed 100% of the maximum computed award.

(The additional index was not calculated for 2011).

(C) The discretionary award

The total budget for the discretionary award. The additional budget for each award year will equal one half of the amount of the computed award to which all members of Management will be entitled in that award year (prior to the deferral of the award installment payments). The budget for the discretionary award shall not exceed an amount equal to four monthly salaries of each of the Management members. In an award year in respect of which Management members will not be entitled to any computed award, no budget allocation shall be made in respect of a discretionary award.

Distribution of the budget for a discretionary award. The budget shall be allocated at the discretion of the President & CEO, subject to approval of the Audit Committee and the Board of Directors and subject to the following terms:

16. EMPLOYEE BENEFITS (CONTINUED)

1. The amount out of the additional budget granted to each Management member shall not exceed a total of eight monthly salaries of that member.
2. The total annual award to be granted in one award year to each member of Management shall not exceed a total of fourteen monthly salaries of that member.

When deciding upon the allocation of the additional budget between the different members of Management, the President & CEO shall, among other things, consider the following: attainment of the Bank's general goals concerning risk management; attainment of the Bank's general goals concerning compliance with the law, regulations and Bank procedures. Legal actions (including administrative proceedings) and reports issued by regulatory authorities should also be taken into consideration.

3. Annual award to the Internal Auditor, the Chief Risk Officer and the Chief Accountant

The annual award to the Internal Auditor, the Chief Risk Officer (CRO) and the Chief Accountant shall be based on a different mechanism, determined, among other things, according to directives of the Supervisor of Banks, in order to reflect the importance and sensitivity of the role they fulfill.

The annual award to the Internal Auditor shall be determined, following the end of each award year, at the discretion of the Audit Committee and the Board of Directors.

The annual award to the CRO shall be recommended, following the end of each award year, by the Risk Management Committee of the Board in consultation with the Bank's President & CEO, subject to approval of the Audit Committee and the Board of Directors.

The annual bonus for the Bank's Chief Accountant for each bonus year (after the year has ended) will be recommended by the Bank's President & CEO and will be subject to the approval of the Audit Committee of the Bank's Board of Directors.

In determining the said annual awards, the factors to be taken, among other things, into consideration are the work plan goals for any of the aforementioned officers, as well as the Bank's performance in the year of award and the maximum amount of the annual award (in monthly salary terms) to which each of the other members of Management are entitled in respect of that award year.

The said annual award as above shall not exceed a total of twelve monthly salaries for each of the two functionaries.

Entitlement to an award in respect of a particular year shall be subject to the fulfillment of all minimum conditions.

Payment of the annual award to the Internal Auditor, to the CRO and to the Chief Accountant in respect of a particular year shall be made in installments similarly to the manner of payment applying to the other members of Management.

4. Long-term award

Members of Management, including the CRO and to the Chief Accountant, as well as the Internal Auditor, are entitled to a long-term award depending on attainment by the Bank of cumulative net earnings goals over the period of the remuneration plan (the years 2011 to 2013). At the beginning of each of the years 2011, 2012 and 2013 a net earnings goal shall be determined within the framework of the Bank's annual budget and approved by the Board of Directors (hereinafter: "net earnings goal").

Soon after the approval of the Bank's annual financial statements for the year 2013, attainment by the Bank of the net earnings goals for the years 2011 to 2013 shall be examined. Reaching the targeted goal, the minimum goal or the maximum goal will entitle each member of Management to an amount of NIS 1,200 thousand, NIS 900 thousand or NIS 1,440 thousand, respectively. Each result between the minimum goal and the maximum goal will entitle them to an amount to be computed in a linear manner in accordance with the two goals between which the result lies.

5. Additional instructions

Within the framework of the plan, rules have been determined, applying upon termination of office, with respect to pending payments of award installments from prior years, the annual award in respect of the year of termination of employer/employee relations with a member of Management, and the payment of the long-term award. Rules regarding the payment of awards to Management members appointed in the course of an award year have also been determined within the framework of the plan.

16. EMPLOYEE BENEFITS (CONTINUED)

6. **Amount of the annual award for 2011.** Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant were entitled to an annual award in respect of the year 2011, in a total amount of NIS 4.1 million. In accordance with the terms of the plan, an amount of NIS 2.5 million out of the above award sum was in April 2012, and the balance was divided into two deferred amounts the payment of which is subject to the fulfillment of threshold conditions in respect of the years 2012 and 2013, respectively. The entitlement to the deferred payments, as above, became effective in the years 2012-2013, in view of compliance with the determined threshold terms.
7. **Waiver of the award in respect of 2012.** In July 2012, members of the Bank's Management and the Bank's Internal Auditor (the beneficiaries of the said remuneration plan) informed of their decision (each electively) to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it, in accordance with the said remuneration plans. Following the decision of the senior management of Discount, and similarly to it, the members of management of Mercantile Discount Bank (the beneficiaries of the remuneration plans determined at MDB) also decided (each electively) to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it, in accordance with the remuneration plans approved by the respective companies in MDB. In October 2012, the Board of Directors of ICC in unison with and consent of members of the management of ICC, decided to reduce the bonus to the members of Management for 2012, by a significant rate. These decisions have been taken in continuation and in line with the savings and efficiency measures adopted by the Bank and in consideration of the existing public mood.
8. **Amount of the annual award for 2013.** Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant are entitled to an annual award in respect of the year 2013, in a total amount of NIS 5.2 million. In accordance with the terms of the plan, an amount of NIS 3.1 million out of the above award sum will be in April 2014, and the balance will be divided into two deferred amounts the payment of which will be subject to the fulfillment of threshold conditions in respect of the years 2014 and 2015, respectively. The said amount is net of a deduction of 20% of the annual award and the denial of the discretionary award.
9. **Long-term award in respect of the years 2011-2013.** Members of the Bank`s Management, the Internal Auditor, the Chief Risk Officer and the Chief Accountant, are entitled to a long-term award in respect of the years 2011-2013, in a total amount of NIS 5.1 million, which would be paid in full in April 2014. The said amount is after the elimination of the proportionate part of the long-term award in respect of 2012, and a reduction of 20% of the balance in respect of the years 2011-2013.

J. **Stock option plan for the Bank's officers.** For details regarding a stock option plan for the Bank's officers, see Note 13 D (2). For details regarding a phantom option plan for the Bank's officers, see Note 13 D (1) and (3).

K. **Remuneration policy for officers of the Bank (2014-2016).** A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve the remuneration policy for officers of the Bank, and in accordance with Section 267A of the Companies Act, 1999, after its approval by the Board of Directors with the recommendation of the Remuneration Committee. Among other things, the plan includes the following components: the maximum monthly salary and the considerations in determining it; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in a total of up to six monthly salaries, where the engagement terminates within a period of up to two years from inception, and up to four monthly salaries following the end of two years, as stated; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers shall be based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank, upon a basic award component and a discretionary award component. Special instructions have been determined, within the framework of the remuneration policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to all officers together and to each one of the officers has been determined, also included is the possibility for the distribution of special awards: award in respect of special profits or losses (positive or negative award), an award for special contribution and an award in special circumstances. In the framework of the policy arrangements for the spreading of the annul award were determined, including – a cash payment of 50% of the total awards granted in respect of an award year, to be made soon after the publication of the Bank`s financial statements for the award year, and deferment of the remaining 50% to be paid in three equal installments over the three years following the entitlement date, and which would be linked to changes in the price of the Bank`s shares; instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO.

16. EMPLOYEE BENEFITS (CONTINUED)

The principles detailed in the remuneration plan shall apply to the terms of office and employment of officers of the Bank, to be approved as from the date of approval of the remuneration policy. In no way does the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, existing at date of approval of the policy.

The approved remuneration policy shall not directly apply to the terms of office and employment of officers of the Bank`s subsidiaries . Notwithstanding, the principles of the Bank`s remuneration policy shall be adopted as part of the Group's remuneration policy, which shall apply, with the required adjustments, to officers of the Bank`s subsidiaries in Israel.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS

Consolidated

	December 31, 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	17,773	166	5,343	623	1,414	-	25,319
Securities	20,804	5,474	13,746	356	80	865	41,325
Securities borrowed or purchased under resale agreements	102	-	-	-	-	-	102
Credit to the public, net	69,874	17,388	23,960	3,278	1,359	-	115,859
Credit to the Government	81	1,725	29	-	-	-	1,835
Investments in affiliated companies	9	2	-	-	-	1,657	1,668
Buildings and equipment	-	-	-	-	-	2,696	2,696
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,536	191	459	397	94	403	4,080
Other assets	1,619	86	1,011	1	433	127	3,277
Noncurrect assets held for sale	-	-	3,478	114	604	8	4,204
Total assets	**112,798**	**25,032**	**48,026**	**4,769**	**3,984**	**5,898**	**200,507**
Liabilities							
Deposits from the public	85,467	10,797	40,216	8,321	4,127	-	148,928
Deposits from banks	1,998	267	1,496	172	280	-	4,213
Deposits from the Government	241	114	617	-	-	-	972
Securities loaned or sold under repurchase agreements	-	-	3,644	-	-	-	3,644
Subordinated capital notes	3,016	8,648	-	-	-	-	11,664
Liabilities in respect of derivative instruments	2,996	423	409	546	122	402	4,898
Other liabilities	8,729	143	583	28	90	146	9,719
Liabilities held for sale	-	-	3,191	114	626	-	3,931
Total liabilities	**102,447**	**20,392**	**50,156**	**9,181**	**5,245**	**548**	**187,969**
Difference	10,351	4,640	(2,130)	(4,412)	(1,261)	5,350	12,538
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(7,200)	(3,420)	5,209	4,347	1,064	-	-
Options in the money, net (in terms of underlying asset)	263	-	(196)	(75)	8	-	-
Options out of the money, net (in terms of underlying asset)	(37)	-	24	36	(23)	-	-
Total	**3,377**	**1,220**	**2,907**	**(104)**	**(212)**	**5,350**	**12,538**
Options in the money, net (discounted par value)	321	-	(210)	(121)	10	-	-
Options out of the money, net (discounted par value)	(416)	-	533	(89)	(28)	-	-

Footnote:

(1) Includes those linked to foreign currency.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS (CONTINUED)

Consolidated (continued)

	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 D 8.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE (CONTINUED)

A. The Bank

	December 31, 2013						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	15,873	104	3,557	386	276	-	20,196
Securities	16,718	3,426	2,074	354	34	6	22,612
under resale agreements securities borrowed or purchased	102	-	-	-	-	-	102
Credit to the public, net	51,149	14,613	8,150	2,954	1,191	-	78,057
Credit to Governments	81	1,725	-	-	-	-	1,806
Investments in affiliated companies	867	171	-	-	-	7,968	9,006
Buildings and equipment	-	-	-	-	-	1,957	1,957
Assets in respect of derivative instruments	2,534	184	408	396	92	398	4,012
Other assets	1,262	5	4	1	430	22	1,724
Noncurrent assets held for sale	-	-	-	-	-	8	8
Total assets	**88,586**	**20,228**	**14,193**	**4,091**	**2,023**	**10,359**	**139,480**
Liabilities							
Deposits from the public	70,442	12,128	17,408	7,620	3,580	-	111,178
Deposits from banks	1,000	468	420	180	269	-	2,337
Deposits from the Government	102	114	-	-	-	-	216
Subordinated debt notes and bonds	326	3,300	-	-	-	-	3,626
Liabilities in respect of derivative instruments	2,988	328	355	528	95	397	4,691
Other liabilities	4,722	93	208	17	69	90	5,199
Total liabilities	**79,580**	**16,431**	**18,391**	**8,345**	**4,013**	**487**	**127,247**
Difference	9,006	3,797	(4,198)	(4,254)	(1,990)	9,872	12,233
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(6,468)	(3,894)	4,546	4,159	1,657	-	-
Options in the money, net, (in terms of base asset)	239	-	(180)	(67)	8	-	-
Options out of the money, net, (in terms of base asset)	(36)	-	24	35	(23)	-	-
Total	**2,741**	**(97)**	**192**	**(127)**	**(348)**	**9,872**	**12,233**
Options in the money, net, (discounted par value)	295	-	(184)	(121)	10	-	-
Options out of the money, net, (discounted par value)	(416)	-	531	(87)	(28)	-	-

Footnote:

(1) Includes those linked to foreign currency.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE (CONTINUED)

A. The Bank (continued)

	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
	NIS millions						
Assets							
Cash and deposits with banks	13,251	219	3,648	234	193	-	17,545
Securities	18,854	2,958	1,229	449	129	5	23,624
under resale agreements Securities borrowed or purchased	387	-	-	-	-	-	387
Credit granted to the public, net	50,881	14,922	9,011	4,563	1,652	-	81,029
Credit granted to Governments	-	1,614	-	-	-	-	1,614
Investments in affiliated companies	808	214	-	-	-	8,154	9,176
Buildings and equipment	-	-	-	-	-	2,161	2,161
Assets in respect of derivative instruments	2,859	45	287	177	68	85	3,521
Other assets	999	15	-2	9	114	29	1,168
Total assets	**88,039**	**19,987**	**14,177**	**5,432**	**2,156**	**10,434**	**140,225**

Footnote:

(1) Includes those linked to foreign currency.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE (CONTINUED)

A. The Bank (continued)

	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
	NIS millions						
Liabilities							
Deposits from the public	70,199	12,074	19,194	7,491	2,852	-	111,810
Deposits from banks	1,038	275	1,228	131	446	-	3,118
Deposits from the Government	112	111	-	-	-	-	223
Subordinated debt notes and bonds	327	3,628	-	-	-	-	3,955
Liabilities in respect of derivative instruments	3,078	371	308	346	65	85	4,253
Other liabilities	4,688	122	86	6	30	96	5,028
Total liabilities	**79,442**	**16,581**	**20,816**	**7,974**	**3,393**	**181**	**128,387**
Difference	8,597	3,406	(6,639)	(2,542)	(1,237)	10,253	11,838
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(8,809)	(1,254)	6,848	2,369	846	-	-
Options in the money, net, (in terms of base asset)	159	-	(226)	33	34	-	-
Options out of the money, net, (in terms of base asset)	(70)	-	112	(19)	(23)	-	-
Total	**(123)**	**2,152**	**95**	**(159)**	**(380)**	**10,253**	**11,838**
Options in the money, net, (discounted par value)	165	-	(217)	15	37	-	-
Options out of the money, net, (discounted par value)	1	-	434	(344)	(91)	-	-

Footnote:
(1) Includes those linked to foreign currency.

18. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS(5)

Consolidated - in NIS millions

A. Anticipated Future Contractual Cash Flows as of December 31, 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 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets(10)	39,920	15,348	19,568	15,306	11,130
Liabilities	68,309	13,956	19,702	7,642	4,180
Difference	**(28,389)**	**1,392**	**(134)**	**7,664**	**6,950**
Derivative instruments (excluding options)	(2,934)	(3,623)	(3,412)	(520)	(104)
Options (in terms of underlying assets)	49	24	6	-	-
Difference after effect of derivative instruments:	(31,274)	(2,207)	(3,540)	7,144	6,846
Foreign currency(8):					
Assets(11)	13,873	5,719	7,671	5,706	4,158
Liabilities	40,158	7,670	10,077	1,797	1,087
Difference	**(26,285)**	**(1,951)**	**(2,406)**	**3,909**	**3,071**
Of which: Difference in dollar	(21,335)	(911)	(205)	3,145	2,654
Of which: Difference in respect of foreign activity	(16,113)	720	3,356	2,598	2,159
Derivative instruments (excluding options)	2,934	3,623	3,412	520	104
Options (in terms of underlying assets)	(49)	(24)	(6)	-	-
Difference after effect of derivative instruments:	(23,400)	1,648	1,000	4,429	3,175
Total:					
Assets(1)	53,800	21,073	27,250	21,013	15,288
Liabilities(2)	108,471	21,626	29,779	9,439	5,267
Difference	**(54,671)**	**(553)**	**(2,529)**	**11,574**	**10,021**
Derivative instruments (excluding options)					
Options (in terms of underlying assets)					
(1) Of which: Credit to the public	25,769	17,807	18,672	14,767	10,112
(2) Of which: Deposits from the public	96,451	18,496	25,249	5,575	2,153
B. Balance Sheet Amount as December 31, 2012					
Total:					
Assets(3)	50,873	19,745	(12)29,385	19,561	15,882
Liabilities(4)	104,642	20,565	(12)33,522	9,673	5,454
Difference	**(53,769)**	**(820)**	**(4,137)**	**9,888**	**10,428**
(3) Of which: Credit to the public	25,879	17,771	19,977	15,203	10,893
(4) Of which: Deposits from the public	96,416	17,915	28,149	5,962	2,458

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according , to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts 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.

(6) As included in Note 17 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 1,212 million (2012: NIS 1,628 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 4,872 million (2012: NIS 4,463 million) and an amount of NIS 1,143 million with no due date (2012: NIS 1,474 million).

(11) Including current loan account credit facilities in the amount of NIS 160 million (2012: NIS 430 million) and an amount of NIS 260 million with no due date (2012: NIS 73 million).

(12) Reclassified, see note 1 D 8.

						Balance sheet amount[6]		
Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
7,580	6,486	23,952	12,016	1,924	153,230	1,689	138,398	3.27
3,089	1,664	7,444	996	153	127,135	31	123,084	1.48
4,491	**4,822**	**16,508**	**11,020**	**1,771**	**26,095**	**1,658**	**15,314**	**1.79**
214	378	(1,294)	-	-	(11,295)	-	(10,934)	-
-	-	-	-	-	79	-	103	-
4,705	5,200	15,214	11,020	1,771	14,879	1,658	4,483	
4,681	3,558	8,456	5,447	2,355	61,624	2,303	56,210	2.07
1,573	1,195	1,387	29	-	64,973	107	64,337	0.32
3,108	**2,363**	**7,069**	**5,418**	**2,355**	**(3,349)**	**2,196**	**(8,127)**	**1.75**
2,460	2,109	6,840	5,374	2,355	2,486	1,584	(2,404)	-
1,589	1,705	4,809	5,376	2,355	8,554	1,050	3,712	-
(214)	(378)	1,294	-	-	11,295	-	10,934	-
-	-	-	-	-	(79)	-	(103)	-
2,894	1,985	8,363	5,418	2,355	7,867	2,196	2,704	
12,261	10,044	32,408	17,463	4,279	214,879	9,867	200,507	2.93
4,662	2,859	8,831	1,025	153	192,112	681	187,969	1.08
7,599	**7,185**	**23,577**	**16,438**	**4,126**	**22,767**	**9,186**	**12,538**	**1.85**
8,043	6,511	13,729	10,849	1,693	127,952	2,817	115,859	4.26
621	532	450	134	-	149,661	-	148,928	0.60
11,635	11,869	33,509	20,546	5,308	218,313	9,980	[12]201,012	3.65
3,548	4,321	11,228	1,004	145	194,102	374	[12]188,878	2.03
8,087	**7,548**	**22,281**	**19,542**	**5,163**	**24,211**	**9,606**	**12,134**	**1.62**
7,538	6,460	13,552	10,343	1,748	129,364	3,140	117,611	4.65
766	443	445	65	-	152,619	-	151,935	0.97

18. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS[5] (CONTINUED)

The Bank - in NIS millions

A. Anticipated Future Contractual Cash Flows as of December 31, 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 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	32,205	11,056	13,919	11,366	8,435
Liabilities	52,955	11,567	13,041	6,359	3,826
Difference	**(20,750)**	**(511)**	**878**	**5,007**	**4,609**
Derivative instruments (excluding options)	(2,700)	(3,667)	(3,515)	(511)	(94)
Options (in terms of base assets)	49	24	6	-	-
Difference after effect of derivative instruments:	(23,401)	(4,154)	(2,631)	4,496	4,515
Foreign currency[8]:					
Assets[11]	8,209	3,732	864	1,555	952
Liabilities	17,576	6,176	6,117	338	93
Difference	**(9,367)**	**(2,444)**	**(5,253)**	**1,217**	**859**
Of which: Difference in dollar	(4,453)	(1,382)	(2,748)	672	591
Of which: Difference in respect of foreign activity	989	42	365	192	266
Derivative instruments (excluding options)	2,700	3,667	3,515	511	94
Options (in terms of underlying assets)	(49)	(24)	(6)	-	-
Difference after effect of derivative instruments:	(6,716)	1,199	(1,744)	1,728	953
Total:					
Assets[1]	40,414	14,788	14,783	12,921	9,387
Liabilities[2]	70,531	17,743	19,158	6,697	3,919
Difference	**(30,117)**	**(2,955)**	**(4,375)**	**6,224**	**5,468**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
[1] Of which: Credit to the public	19,270	12,597	9,441	9,442	6,059
[2] Of which: Deposits from the public	66,225	16,175	16,846	5,006	3,015
B. Balance Sheet Amount as December 31, 2012					
Total:					
Assets[3]	37,353	13,633	18,716	12,281	9,906
Liabilities[4]	69,653	17,051	20,909	5,899	4,164
Difference	**(32,300)**	**(3,418)**	**(2,193)**	**6,382**	**5,742**
[3] Of which: Credit to the public	18,924	12,249	11,321	9,847	6,957
[4] Of which: Deposits from the public	64,904	15,742	18,604	4,728	3,154

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts 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.

(6) As included in Note 17 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 1,083 million (2012: NIS 1,510 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 3,157 million (2012: NIS 2,798 million) and an amount of NIS 972 million with no due date (2012: NIS 1,302 million).

(11) Including current loan account credit facilities in the amount of NIS 135 million (2012: NIS 401 million) and an amount of NIS 254 million with no due date (2012: NIS 66 million).

							Balance sheet amount[6]		
	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
	5,756	5,070	20,801	10,448	1,644	120,700	1,904	109,087	3.05
	2,923	1,554	6,791	722	98	99,836	24	96,203	1.25
	2,833	**3,516**	**14,010**	**9,726**	**1,546**	**20,864**	**1,880**	**12,884**	**1.80**
	224	388	(1,101)	-	-	(10,976)	-	(10,640)	-
	-	-	-	-	-	79	-	103	-
	3,057	3,904	12,909	9,726	1,546	9,967	1,880	2,347	-
	1,539	707	2,365	52	-	19,975	1,151	20,034	2.20
	36	63	175	17	-	30,591	12	30,556	0.33
	1,503	**644**	**2,190**	**35**	**-**	**(10,616)**	**1,139**	**(10,522)**	**1.87**
	855	388	1,963	(4)	-	(4,118)	510	(4,260)	-
	309	261	-	-	-	2,424	620	2,786	-
	(224)	(388)	1,101	-	-	10,976	-	10,640	-
	-	-	-	-	-	(79)	-	(103)	-
	1,279	256	3,291	35	-	281	1,139	15	-
	7,295	5,777	23,166	10,500	1,644	140,675	13,414	139,480	2.92
	2,959	1,617	6,966	739	98	130,427	524	127,247	1.03
	4,336	**4,160**	**16,200**	**9,761**	**1,546**	**10,248**	**12,890**	**12,233**	**1.89**
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	5,131	3,909	10,225	8,938	1,419	86,431	2,322	78,057	3.95
	2,243	897	2,556	104	-	113,067	-	111,178	0.95
	7,304	7,250	23,868	10,235	1,638	142,184	13,150	140,225	3.47
	2,491	2,777	8,601	773	102	132,420	190	128,387	1.49
	4,813	**4,473**	**15,267**	**9,462**	**1,536**	**9,764**	**12,960**	**11,838**	**1.98**
	4,723	4,195	10,860	9,011	1,535	89,622	2,696	81,029	4.40
	1,768	2,081	3,184	65	-	114,230	-	111,810	1.40

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

A. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[(1)]	Provision[(2)]	Balance[(1)]	Provision[(2)]	Balance[(1)]	Provision[(2)]	Balance[(1)]	Provision[(2)]
	December 31,2013[(4)]				December 31,2012			
	in NIS millions							
Contract balances or their stated amounts at year end Transactions involving credit risk:								
Letters of credit	1,146	12	629	11	1,475	1	737	1
Credit guarantees	2,675	33	1,781	28	2,838	43	1,870	34
Guarantees for home purchasers	5,181	9	4,088	8	5,409	14	4,439	13
Other guarantees and obligations	4,295	42	3,654	41	4,620	31	3,976	26
Unutilized facilities for transactions in derivative instruments	1,356	-	1,305	-	1,024	-	966	-
Unutilized credit line for credit cards	16,831	24	4,345	5	15,482	22	4,201	6
Unutilized current loan account facilities and other credit facilities in on-call accounts	7,647	19	6,674	16	7,841	19	6,909	16
Irrevocable commitments to extend credit approved but not yet granted[(3)]	15,353	40	9,444	40	17,072	35	10,028	33
Commitment to issue guarantees	2,782	5	1,991	4	3,744	6	2,754	5

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 maintaining interest rates" in accordance with Proper Management Directive No, 451 "Procedures for the granting of housing loans".

(4) Excluding balances classified as assets held for sale – see Note 8A.

B. Off-Balance sheet Commitment at year-end regarding activity based[(1)] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[(2)]:				
Israeli currency - non linked	1,730	1,675	1,730	1,675
Israeli currency - linked to the CPI	957	1,146	927	1,111
Foreign currency	464	814	464	814
Total	**3,151**	**3,635**	**3,121**	**3,600**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 8 million (2012:NIS 3 million), have not been included in the table.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

Cash flows in respect of collection commissions and interest margins of activity based on loan requirements - Consolidated

	December 31,2013							2012
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	2	1	1	2	4	-	10	8
Expected future flows based on Management's estimates of early repayments	2	1	1	2	4	-	10	8
Discounted expected future flows based on Management's estimates of early repayments(1)	2	1	1	2	2	-	8	5
In Israeli currency, CPI-linked:								
Future contractual flows	7	14	13	19	5	-	58	78
Expected future flows based on Management's estimates of early repayments	7	12	9	10	2	-	40	71
Discounted expected future flows based on Management's estimates of early repayments(2)	7	12	8	9	2	-	38	66
In foreign currency:								
Future contractual flows	2	-	-	-	-	-	2	4
Expected future flows based on Management's estimates of early repayments	2	-	-	-	-	-	2	4
Discounted expected future flows based on Management's estimates of early repayments(3)	2	-	-	-	-	-	2	3

Information as to the granting of loans during the year by the mortgage banks:

	December 31	
	2013	2012
Loans out of deposits repayable according to the repayment of loans	2	1
Standing loans	4	1

Footnotes:

(1) The capitalization was performed according to weighted rate of 4.09% (4.06% :2012)

(2) The capitalization was performed according to weighted rate of 0.91% (0.83% :2012)

(3) The capitalization was performed according to weighted rate of 0.27% (0.60% :2012)

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
1. Long-term lease contracts - rent payable in future years:				
First year	115	(1)116	57	58
Second year	106	(1)96	52	48
Third year	87	(1)84	38	40
Fourth year	70	(1)65	34	30
Fifth year	62	(1)57	30	26
Sixth year and thereafter	312	(1)281	134	107
Total	**752**	**699**	**345**	**309**
2. Commitment to acquire buildings and equipment	41	59	26	33
3. Commitment to invest in private investment funds and in venture capital funds	308	352	-	-

(1).Reclassified - following reclassification in a consolidated company

4. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Ma'of Clearing House Ltd., are responsible along with other Ma'of Clearing House members towards the Clearing House for any financial obligations resulting from option transactions conducted on the Stock Exchange. For this purpose, the Ma'of Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2013, amounts to approx. NIS 21 million, comprising 1.88% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2013, amounted to NIS 5 million, comprising 0.18% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Ma'of Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 15 F). Each of the banks is also committed to pay the Ma'of Clearing House any monetary charge that may result from its operations and from the operation of their customers involving the writing of options traded within the framework of the Clearing House.
5. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at another bank (in which cash is deposited). (See Note 15 I).
6. a) The Bank is committed to indemnify the subsidiary Tafnit Discount Asset Management Ltd. (formerly known as Tachlit Discount - Portfolio Management Ltd.; and beforehand: Tachlit Investment House Ltd.; hereinafter - "Tafnit") in respect of liability lawsuits filed against it by a letter of guarantee as alternative to insurance according to the Engagement in Investment Consulting and in Investment Portfolio Management (Equity capital and insurance) Regulations, 2000. The letter of guarantee is over and above the liability insurance purchased by Tafnit, in an amount of not less than US$5 million. Following the merger of Mercantile Capital Markets Ltd. into Tafnit, the letter of guarantee was expanded to include also a liability deriving from the professional liability of Mercantile Capital Markets Ltd. prior to the merger. The letter of guarantee is granted for the settlement of any amount up to NIS 14.5 million, linked to the CPI of November 1998, payable or which might become payable by Tafnit and/or its employees or executives (hereinafter: "the debtor") in respect of any liability stemming from the professional responsibility of the debtor towards a customer of Tafnit, in accordance with the terms of the letter of guarantee. The guarantee is in effect until May 15, 2015, inclusive.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

b) Tafnit is committed towards Tachlit Dollar Worldwide Ltd., previously held by Tafnit at the rate of 20%, and toward Synergetica Ltd., which owns approximately 80% of Tachlit Dollar Worldwide Ltd., to transfer to Tachlit Dollar Worldwide Ltd., a company that issues basket certificates, a total amount not exceeding US$1 million, to cover its current operating expenses and to fulfill its obligations towards the holders of its basket certificates. The Bank granted Tafnit an indemnification as collateral for the said commitment. A similar indemnification from the Bank, in an identical amount, was given by the Bank in respect of Tachlit Basket Certificates Ltd.. The indemnifications granted by the Bank, as stated, have expired upon the consummation of the transaction for the sale of the basket certificates operations (see Subsection 21 below), following which the Bank no longer holds (indirectly) means of control in the companies Tachlit Dollar Worldwide Ltd. and Tachlit Basket Certificates Ltd.

It should also be noted, regarding Tafnit's commitments towards Tachlit Dollar WorldWide Ltd. and Synergetics Ltd., as stated above in this subsection, that as part of the transaction for the sale of the basket certificates operation, the parties signed a letter of assignment, according to which all obligations and rights deriving from the basket certificates operation have been irrevocably assigned to Synergetics Ltd., with specific reference to the commitment made by Tafnit Investment House to invest in two basket certificate companies (including Tachlit Dollar WorldWide Ltd.) assigned to Synergetics Ltd. As of the present time, as long as the commitment of Tafnit towards the basket certificate companies remains in effect, Synergetics Ltd. is obligated to indemnify Tafnit in case this commitment materializes.

7. The Bank's consolidated subsidiaries are engaged in providing a variety of trusteeship services and serve, inter alia, as trustees for certain debentures issued to the public according to a prospectus and which are traded on the Stock Exchange.

8. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank’s request in other companies held, directly or indirectly, by the Bank (see hereunder).

b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, granted in September 2006 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 1.5 billion. In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated February 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion.

f) Manpikim granted in February 2009 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 3 billion.

g) The Bank's Board of Directors approved the granting of indemnification by Manpikim to the Board members and CEO of Manpikim, with respect to a shelf Prospectus dated June 18, 2010, and shelf offer reports issued in accordance therewith. In any event, the maximum amount of the indemnification to be granted to all Directors and the President & CEO as a group, shall not exceed the gross proceeds of the public offerings and in any event not in excess of NIS 2 billion.

h) On October 31, 2012, Manpikim granted an indemnification to Directors, the CEO and the Financial Comptroller of the company, with respect to a shelf Prospectus respecting a notice of acceptance of liability within the framework of the merger dated May 31, 2012, between Discount Mortgage Issues Ltd. and Manpikim ("the merger Prospectus"), in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

In respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in items (d) to (h) above, the Bank has granted an indemnity to Manpikim.

i) In April 2013, 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.

j) Concurrently with approval of the engagement in an agreement for the sale of the provident fund management activity, the Bank committed to indemnify Discount Gemel Ltd. and its executive officers under conditions and circumstances in which the Bank is permitted to grant such indemnification in accordance with the relevant provisions of the Companies Law, with respect to their activity as officers of the company relating to approval of the sale agreement and implementation of the said sale, including any financial liabilities, expenses, consultation with legal and other experts, as required, and reasonable litigation expenses, provided that the cumulative amount required to be paid by the Bank shall not exceed the consideration receivable by the Bank under the sale agreement, and provided that realization of the indemnification will not impair the capital adequacy ratio, which the Bank is required to maintain under Proper Conduct of Banking Business Directive No. 311, all as stated in the indemnification letter.

k) The agreement for the sale of the provident fund management activity included indemnification arrangements whereby indemnification would be granted in respect of any claim or request submitted until the end of the seven years following the closure date (June 2007), against Clal Insurance, Clal Gemel or any officers thereof, though not against the sold provident funds, the cause of which would be acts of commission or omission by the Bank, Discount Gemel Ltd. or officers thereof committed prior to the closure date. Full indemnification would be given with respect to matters relating to claims by employees. In respect of other matters, the indemnification would amount to 50% and would be limited to a cumulative amount exceeding US1$ million. In any event, the cumulative amount of the indemnification shall not exceed the total consideration for the transaction, with the addition of interest and linkage inceremnts.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

l) **Liability Insurance of Officers.** A special meeting of the Bank's shareholders, held on April 25, 2013, approved the Bank's engagement for the purchase of an insurance policy with respect to Directors and other Officers, as well as the Internal Auditor, who act today and who had acted in the past in the Bank and in companies in which the Bank holds, directly or indirectly, an interest of 50% or more in their equity or voting rights, including two former Officers who had acted as Directors of consolidated subsidiaries and who are also the Bank's controlling shareholders. The policy also includes officers appointed by the Bank to serve in a company in which the Bank holds less than 50% of the equity or voting rights. The policy is in effect for the period April 1, 2013 through September 30, 2014, with maximum coverage in the amount of US$150 million for an event and for the period. The annual premium to be paid in respect of the Bank`s group for the policy shall not exceed an amount of US$640 thousand. The Bank's part (not including the subsidiaries) in the said premium will not exceed US$380 thousand. The coverage for claims regarding breach of money laundering legislation is US$5 million only, for supervisory responsibility only. In the event of claims against any officers, the officer shall not bear any deductible. The Bank will bear participation (deductible) in the amount of US$50 thousand per event.

On March 21, 2012, a special General meeting of shareholders approved the Bank's engagement in a policy with respect to the responsibility of the Bank's officers and of companies in which the Bank holds, directly or indirectly, an interest of 50% or more in the equity or voting rights for a period of one year as from April 1, 2012 and until March 31, 2013. The details of the policy are as described above, with the following changes: annual premium – US$765 thousand, share of the Bank – US$ 450 thousand, participation of the Bank in the case of a claim filed against anyone of the Officers – US$75 thousand.

m) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a special General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), for damage caused to the Bank as a result of breach of the requirement for caution toward the Bank, except as a result of breach of the requirement for caution in respect of distribution, all subject to qualifications detailed in the decision, derived from the Bank's articles regarding exemption from responsibility.

The abovementioned special General Meeting also approved a commitment for indemnification of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, subject to a limit on the total amount of the indemnification payable to officers in the Bank and to officers in subsidiaries of 10% of the Bank's shareholders' equity, as reflected in the most recent financial statements published prior to the actual date of the indemnification, and subject to the indemnification amount not impairing the minimum capital adequacy ratio in accordance with Regulation No. 311 of the Proper Conduct of Banking Business Regulations. The indemnification will be provided in respect of any action implemented in connection with the subjects detailed in the indemnification letter in effect for directors and officers in the Bank, subject also to fulfillment of additional conditions customary in such indemnification letters.

The above-mentioned indemnification will be provided only in the event that the monetary liability and/or expenses are not covered by a third party, including an insurance company.

Concurrently with the passing of the above resolutions, the special meeting of shareholders resolved to approve the amendment of some of the Bank's bye-laws, regarding the granting of exemption and indemnification to the Bank's Directors and other Officers.

The abovementioned special General Meeting also approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with mobilization of tier 1 capital implemented in the Bank in December 2006 and May 2007. The commitment for indemnification is limited to the amount of the mobilization (NIS 1 billion), subject, that in each event:

(1) Realization of the indemnification will not impair the minimum capital adequacy ratio in accordance with the Proper Conduct of Banking Business Regulations;

(2) Realization of the indemnification will not impair the required original tier 1 capital ratio (without hybrid tier one capital) of at least 6.5% at any time.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

Following approval by the Audit Committee dated June 28, 2009, the Bank's Board of Directors approved on July 12, 2009, the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007. The General Meeting of Shareholders approved the said resolution on August 27, 2009.

n) On March 21, 2012, the Bank's General Meeting of Shareholders approved changes in the Sections dealing with exemption, indemnification and insurance in the Bank's by-laws, this in the wake of the enactment of the Act for the improvement of enforcement means by the Securities Authority.

Following the amendment of the Bank`s articles, the resolution regarding the commitment for indemnification granted to officers of the Bank, has also been amended, in order to add an undertaking for indemnification in respect of expenses allowable for indemnification according to the law, within the framework of administrative enforcement procedures.

o) In accordance with the existing Articles, the Bank may provide an indemnification commitment in advance to any person, including an officer of the Bank, acting or who had acted as a representative of the Bank, or at the request of the Bank, as director in another corporation held by the Bank. In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been approved by the Bank`s Board of Directors in July 2009, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, DCMI and DCMI Underwriting, under terms parallel to the terms granted to officers of the Bank, according to which, the amount of indemnity commitment shall not exceed 10% of the amount of the supervisory capital of the Bank.

p) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009.

Following the amendment of the Bylaws of Mercantile Discount Bank, this bank convened a general meeting of shareholders to approve the amendment of the liability for indemnification granted to its officers, so as to add indemnification in respect of administrative enforcement proceedings, which may be indemnified by law.

q) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In August 2011 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors on July 2009.

r) The Bylaws of association of DCMI include a provision, enabling, under certain conditions, the granting of an advance undertaking to indemnify an officer of DCMI. In the past, DCMI committed to indemnify its former officers in respect of a liability or expenses borne by them in connection with legal procedures filed against them stemming from their activities at DCMI. The Bank approved DCMI's commitment to grant advance undertakings to indemnify its officers, acting from time to time.

s) **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.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

9. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.

   This includes a full indemnification granted by the Bank to an assessor, 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; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

10. a) In November 2008, the Bank signed a guarantee, unlimited in amount, in favor of the VISA Europe organization, securing all liabilities of ICC, applying due to the status of ICC as a member of the VISA Europe organization, this in relation to the transactions of VISA connected to the operations of ICC both in Israel and abroad. ICC has signed an indemnification letter in favor of the Bank with respect to the said guarantee.

    b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.

    c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

11. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank’s knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot, and the Bank is unable to assess the cost of its participation in the evacuation of tenants as aforesaid.

12. **Various actions against the Bank and its consolidated subsidiaries:**

    Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, subjecting one service to another service, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to provident funds, securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. 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 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, has been assessed as reasonably possible, amounts to approx. NIS 1,322 million.

    12.1 On November 2, 1997 a law suite was filed with the Tel-Aviv District Court and a motion to approve the filing as a class-action suit against Discount Mortgage Bank ("DMB") and against three additional mortgage banks regarding the charging of commissions for life assurance and property insurance of borrowers (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The amount set in the class-action suit is NIS 500 million, with no specific allocation to the banks involved.

    Whereas, with respect to another request to approve an action as a class action, in a matter practically identical, the Court had already handed down its decision, which was appealed against, the Court decided that it will be heard only after the Supreme Court will issue a judgment with respect to the said appeal. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

12.2 In November 1999 a former customer of the Bank submitted to the Tel-Aviv District Court a claim against the Bank in the amount of NIS 456 million. According to the plaintiff, the Bank exploited his mental and physical condition, and made use of his account and the accounts of his family members as if they belonged to the Bank, while opening dozens of additional accounts without permission, concealing information, forging signatures, taking out loans in the name of the plaintiff, buying and selling securities fictitiously and embezzling funds.

On September 25, 2011, the Court dismissed the claim. On December 15, 2011, the Claimant filed an appeal against the decision of the Court. On February 2, 2014, a verdict was given by the Supreme Court dismissing the appeal by the Claimant.

12.3 On September 1, 2004, a suit in a sum of NIS 500 million was brought by the liquidators of a company against forty defendants, one of which was the Bank, to the Tel Aviv District Court.

The suit against the Bank turns on three causes only, which relate to alleged injury valued at US$4 million in respect of the sale of an asset mortgaged to the Bank, which was sold for less than its true value; alleged injury valued at US$3 million in respect of the release of the shareholders of one of the companies in the group from their guarantees in relation to the debts of the company to the Bank; and alleged injury valued at US$9 million in respect of the return of deferred payment orders to the company in liquidation without the items passing through the company's bank account. It should be noted that the liquidators claim that the Bank's behavior as described above led to the final liquidation of the company without any specific claims having been made by the liquidators as to the injury attributable to the Bank in relation to this cause of action.

The liquidator has reached a compromise arrangement with certain of the Respondents (which do not include the Bank), and on December 16, 2013, the compromise arrangement was granted the status of a Court verdict. The liquidators and the Bank have recently reached a compromise agreement in principle, whereby in consideration for the payment by the Bank of the agreed amount, the claim against it would be dismissed. An agreement has not yet been signed in this respect.

12.4 A lawsuit was 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, reserving the right to amend this amount in accordance with developments during the course of the litigation.

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.

The relief requested by the Plaintiff is a retroactive reduction in the prices of the five parameters charged during the past ten years for all customers of the defendant banks. Alternatively, the Court is asked to rule a different relief in favor of all members of the class or in favor of the public.

On January 21, 2007, the District Court admitted the Plaintiff's motion to recognize the lawsuit as a class action suit on grounds derived from the Restrictive Trade Practices Law.

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. A judge has not yet been appointed to hear the case.

12.5 On November 23, 2006, a lawsuit was filed to the Jerusalem District Court 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.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

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 12.4 above.

A decision was given on January 21, 2014, instructing the transfer of the hearing of the motion for approval of the claim as a class action in this case, to the District Court hearing the lawsuit described in item12.4 above.

12.6 On June 30, 2008, a motion 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 issue 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 further claim that the banks have created an unlawful restrictive business practice regarding the rates of the various commissions charged to customers. As alleged by the Plaintiffs, as a result of the cartel, the price paid by the public is higher than the price that would have been paid had competition not been prevented by the cartel.

The Plaintiff estimates the gap between commissions actually charged and the commissions that would have been charged had the banks not acted as they did, at 25%. Based on this assessment, 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 22% (namely an amount of approx. NIS 770 million).

Documents which, according to the Claimants, had been seized by the Antitrust Commissioner were attached, among other things, to this motion. In this respect, it should be noted that the Commissioner issued on April 26, 2009, a ruling as detailed in Section 15 below.

The Bank filed its response on March 19, 2009.

According to the decision of the District Court of October 7, 2009, the claim will be heard together with the claim described in Section 13.2 hereunder. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the decision of the Commissioner, to be submitted by the banks to the Antitrust Tribunal (as described in section 15 below).

The case has been fixed for May 18, 2014 for a preliminary hearing and for the hearing of the motion for renewal of proceedings.

12.7 On June 2, 2009, a lawsuit was filed with the Tel Aviv District Court against DMB together with a motion to approve the suit as a class action suit (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank).

The cause for the claim is the charge of an early redemption commission in the case of death of one of the borrowers, as a result of exercising the life insurance policy for the settlement of the balance of the loan.

The claimant requests the Court to instruct DMB to refund early repayment charges collected over the past seven years on loans where one of the borrowers had passed away. The total amount of this claim, as assessed by the claimant, totals not less than NIS 75 million.

On May 1, 2012, the Court ruled for the dismissal of the claim and the motion. The Court ruled that the charging of an early repayment commission bears no relation to the reason for the early repayment, therefore, the argument of the Claimant that a commission may not be charged in the case of an involuntary repayment, is not admitted.

On June 17, 2012, the Claimant appealed the decision to the Supreme Court. An order has been given for summation of arguments, and a hearing has been fixed for May 26, 2014, for completing the arguments.

12.8 On October 29, 2009, two companies submitted a lawsuit against the Bank, MDB and five additional banks, 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%.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

In accordance with the decision of the District Court, the Claimants filed a monetary claim of NIS 830 million, instead of a declarative relief.

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.

Appeals against the verdict were filed with the Supreme Court in December 2013 by the Plaintiffs and the Respondents. The appeals were fixed for hearing on October 27, 2014.

12.9 On July 13, 2011, a claim was filed with the Tel Aviv District Court together with a motion for approval of the claim as a class action suit against the Bank, Automatic Banking Services Ltd. ("ABS"), Bank Hapoalim, Bank Leumi, and the First International Bank. The Claimants argue that a customer who wishes to use the ATM machines operated by ABS is required to pay a commission as stated on the monitor of the machine, and in addition is charged by the banks with a commission for a direct banking transaction, without ABS notifying the customer of the extra commission and without providing fair disclosure of this fact. The Claimants argue that charging the commission by the banks is forbidden. The damage claimed in respect of the group as a whole is assessed by the Claimants at NIS 153 million.

Mediation proceedings had been conducted between ABS and the Claimants, which were concluded in an arrangement. The Bank's part in the arrangement amounts to a payment of NIS 200 thousand. On February 27, a motion for approval of the arrangement was filed with the Court.

12.10 A claim was 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, and other claimants.

The Claimant assesses the amount of the claim at NIS 2.3 billion in respect of all Defendants. In his claim brief, the Claimant argues that the restriction imposed on the amount of cash that may be drawn from the automatic teller machines operated by ABS and Casponet, cause monetary damage to customers wishing to draw amounts higher than the allowed maximum amounts.

On January 21, 2014, the Court admitted the motion for withdrawal by the Appellant, and dismissed the motion for approval of the claim as a class action suit. In its decision, the Court noted that the banks had been sued only as shareholders of ABS or Casponet, a procedure not in line with a class action.

12.11 On July 19, 2012, a law suit together with a motion for approval of the suit as a class action suit 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 Claimants 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 12.12 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". On January 15, 2014, a verdict was given approving the withdrawal of the Appellants from the motion for approval of the claim as a class action suit.

12.12 On August 16, 2012, a claim was received together with a motion for approval of the suit as a class action suit that were 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. The Bank's reply has not yet been submitted (for details regarding a claim under similar causes served against FIBI, see Section 14 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". On January 15, 2014, a verdict was given approving the withdrawal of the Appellants from the motion for approval of the claim as a class action suit.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

12.13 A lawsuit together with a motion for approval of the suit as a class action suit was 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. According to the Claimants, the banks attribute a different and later value date to such payments, which is the date on which these amounts are received from the Debt Execution Office. In respect of the said time difference, the banks charge the debtors with interest in arrears.

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.

On March 10, 2014 the Bank`s response was filed.

12.14 On October 31, 2012 a claim brief and a motion for approval of the claim as a class action suit, were filed with the Central Region District Court, were received. The claim was filed against Israel Credit Cards, against Diners Club and against two additional companies.

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.

In January 2014, the Court approved the notice of the parties for the withdrawal of the motion as a whole, in view of the clarifications provided by ICC regarding the manner of marketing the credit card. The notice of withdrawal was given in consideration for payment of a negligible amount in compensation of the Appellant and his representatives.

12.15 In February and March 2013, the Liquidator of a construction group filed with the Jerusalem District Court two claims 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 the Bank submitted on March 1, 2014.

13. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and requests to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which in the opinion of the Bank's, which is based on legal opinions and/or on the opinion of managements of its evaluate their prospects of success, and therefore no provision has been included in respect therewith.

13.1 On June 19, 2000, two borrowers of DMB (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank) filed with the District Court a petition for approval of an action as a class action suit against DMB and against the Israel Phoenix Insurance Co. Ltd. ("Phoenix"), where the properties of the borrowers are insured. The action is for an amount of NIS 105 million.

The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, since the insured amounts included the land component, 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 the arguments raised in this petition were similar to the arguments raised in the pleas for approval of class actions discussed in 12.1 above. Consequently, the Court decided to defer the hearing of the said petition until after the verdict is given in those other pleas. The Supreme Court rejected on April 4, 2001, a plea for permission to appeal this decision.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

13.2 On May 12, 2009, an action was filed against the Bank, Bank Leumi, Bank Hapoalim, Mizrahi-Tefahot Bank and the First International Bank together with a motion to approve the action as a class action suit.

The action is based on the statement of the Commissioner (see item 15 below) according to which binding arrangements regarding the communication of information with respect to commissions had existed between the defendant banks. The Claimants argue that a binding arrangement had existed between the said banks with respect to commission rates charged by these banks and that the banks established a coordinated policy, which, as alleged by the claimants, was typified by prohibited cooperation and exchange of information.

The class defined in the action constitutes all customers of the defendant banks, both private and business customers, in the period from 1990 to 2004. The total damage for all the defendant banks is assessed for the purpose of the action at approx. NIS 1 billion, with no allocation between them. The Claimants reserve the right to amend the amount of the damage claimed following receipt of the full data from the banks.

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 in Section 12.6 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, was submitted by the banks to the Antitrust Tribunal (see item 15 hereunder).

The case has been fixed for May 18, 2014 for a preliminary hearing and for the hearing of the motion for renewal of proceedings.

13.3 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.

13.4 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 Bank has to file its response by April 30, 2014. The case is scheduled for a preliminary hearing on June 9, 2014.

13.5 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.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

13.6 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.

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.

On January 26, 2014, the Court admitted the preliminary motions submitted in this case, including the motion by the Appellants for withdrawal of the suit against the general managers of the banks. An amended motion for the approval of the suit as a class action suit, was filed on February 4, 2014 and the amount of the claim was set at NIS 11.15 billion.

13.7 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.

13.8 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.

The Bank has to file its response until April 15, 2014. A preliminary hearing of the case was fixed for September 2, 2014.

13.9 A lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit was filed with the Tel Aviv District Court on January 5, 2014.

The Appellant claims that following the entry into effect of Proper Conduct of Banking Business Directive No. 325, MDB has unilaterally raised the interest rate on credit granted to its customers within the approved credit facility that had been agreed with the customers, and this after the customer had already borrowed funds from MDB within the framework of the credit facility allotted to him and on its basis.

The group which the Appellant wishes to represent is defined as "all customers of Mercantile Discount Bank Ltd., who have a credit facility renewable on a quarterly basis, and which, between the years 2007 to 2013, were charged with interest for utilizing the credit facility at a rate exceeding the rate agreed with them according to the last credit facility agreement signed by them with the bank".

The Appellant states the amount of the claim in respect of all group members at NIS 139 million.

The Bank has to file its response by March 15, 2014. The case is fixed for a preliminary hearing on March 19, 2014.

13.10 A lawsuit, together with a motion for approval of the lawsuit as a class action suit was filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Appellant claims that ICC charges on a monthly basis the accounts of holders of "Active" credit cards, in respect of charge amounts accumulated through use of the card, with a minimum amount only determined by ICC. The remainder of the said charge amounts turns into a loan carrying especially high interest rates. It is further alleged that upon the marketing of the plan, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer as well as from stating the cost of the credit granted. The Appellant claims that operating a revolving credit mechanism with respect to the customers and charging them with interest, has been made with no effective contractual basis and with the impairment of the customers' autonomy.

The Appellant stated the amount of the claim in respect of all group members at NIS 2,225 million.

13.11 A lawsuit against DMB and other banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on March 2, 2014, with the Tel Aviv Jaffa District Court.

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 2.07 billion.

13.12 On March 4, 2014, a lawsuit was filed against the Bank with the Central-Lod District Court, together with a motion for its approval as a class action suit.

According to the Appellant, the Bank allows customers to deviate from their approved credit facility in contradiction of Proper Conduct of Banking Business Directive No. 325, thus causing them to pay high and the maximum interest rates in respect of the deviation from their approved credit facility. It is further claimed that the Bank charges the customers account with a commission in respect of notice as to the deviation and/or a warning letter regarding such deviation.

The Appellant notes that he is unable to quote an exact amount in respect of the damage caused, but in his opinion this amounts to hundreds of millions of NIS.

The Bank has not yet had delivery of the claim.

14. Certain requests for approval of class actions against FIBI:

14.1 On July 19, 2012, FIBI was informed of a motion for approval of a claim as a class action suit in the amount of NIS 3.4 billion. The Appellants argue that the interest on arrears charged by FIBI includes a punitive component, which according to a "transaction permit" FIBI is not permitted to charge such interest. The Appellants further argue that the FIBI concealed the existence of a "transaction permit" in order to evade its provisions, thereby misleading the Appellants. In January 2014, a verdict was given approving the withdrawal of the Appellants from the motion for approval of the claim as a class action suit.

14.2 The financial statements of FIBI in describing details of requests for approval of class actions that are pending against this bank, and with respect to which management of FIBI, after consulting with legal advisors, is unable to estimate, at this stage, the prospects of these claims and therefore no provision has been made therein. The following procedure was mentioned: In September 2013, a motion for approval of a class action suit in the amount of NIS 253 million was filed against a consolidated subsidiary of FIBI. According to the Claimant, the consolidated subsidiary is not permitted to charge interest on that part of the loans granted under a State guarantee that is secured by a monetary deposit. The Claimant argues that the consolidated subsidiary does not bear any risk regarding this part of the loan and that it also violates the prohibition of conditioning one service on another service. The Claimant further argues that the consolidated subsidiary does not adjust the collateral and does not reduce the amount of the deposit upon repayments being made on the loan.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

15. Following the investigation conducted since 2004 by the Antitrust Authority, the Antitrust Commissioner ("the Commissioner") issued on April 26, 2009, a statement under Section 43(a)(1) of the Antitrust Act, 1988, according to which binding arrangements existed between Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., Mizrahi-Tefahot Bank, the First International bank of Israel Ltd. and the Bank (hereinafter: "the banks"), in the matter of communication of information regarding commissions ("the Commissioner's Statement"). According to that stated in the Commissioner's decision, these binding arrangements had been in effect since the beginning of the 90's of the previous century and until the beginning of the investigation of the Antitrust Authority in the matter, in November 2004.

    Under Section 43(e) of the Antitrust Law, the decision of the Commissioner serves as prima facie evidence for its contents in any legal proceedings. 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.

    The Tribunal ruled that the Commissioner's decision must refer to concrete matters and cannot be based on general statements. Furthermore, the tribunal ruled that in presenting three examples for the transfer of information, the Commissioner stated determined boundaries, and that these cannot be extended by the submission of a response brief to an appeal and to include therein arguments and evidence relating to commissions and to additional matters that were not included in the decision, and which the banks had no proper opportunity of referring to them within the framework of the hearing.

    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. The Antitrust Authority announced that the last date for submission of the banks' position in the matter of the supplemental decision is March 13, 2014.

    It should be noted that negotiations are being held between the banks and the Commissioner with a view of reaching an arrangement.

    At a hearing held on March 13, 2014, by the Antitrust Tribunal, the representatives of the banks provided an update of the negotiations held with the Commissioner with a view of reaching an agreed Order and presented the understandings that are being formed. The Tribunal decided that the representatives of the parties will notify by March 27, 2014, as to whether understandings have been reached, which would obviate the present proceedings.

16. (a) Israel Discount Capital Markets and Investments Ltd. (hereinafter: "DCMI") is a partner in several venture capital funds, private investment funds and in this respect is obligated to invest in these funds.

    As of December 31, 2013, DCMI has a commitment to additional investments in 15 such entities amounts totaling US$86 million (as of December 31, 2012, US$93 million).

    (b) DCMI owns approx. 19.6% of the equity of Menif. The Board of DCMI had approved in the past the granting of guarantees for projects of Menif Company up to an amount of NIS 72.8 million. This facility is expected to be gradually reduced so as to adjust the ratio of shareholding in Menif to an amount of NIS 54.5 million (linked to the CPI). As of December 31, 2013, guaranties have been provided in the amount of NIS 48 million (December 31, 2012: NIS 54 million).

    (c) In addition, MDB has a commitment to invest in six venture capital funds amounts totaling approx. NIS 4 million, as of December 31, 2013 (December 31, 2012: NIS 4 million).

17. **An agreement for provision of services to government employees.** On May 10, 2007 the Bank signed an agreement in this regard for the granting of loans, credit facilities and other banking services to State employees for a period of seven years beginning on January 1, 2008. On May 10, 2007 the Bank signed an agreement in this regard.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

Within the framework of this tender, the Bank has established a special deposit for seven years in the amount of NIS 1.036 billion, for the purpose of granting loans and credit facilities to State employees. At the end of the period the principal amount of the deposit will be repaid to the Bank together with CPI linkage increments. (The Accountant General is entitled to interest in respect of the loans and credit facilities granted out of the deposit funds, as well as interest on the balance of the deposit).

Loans to State employees so entitled are granted under subsidized terms out of funds of the deposit. The Bank is also obligated to provide credit facilities of up to an amount of NIS 7,000 (out of the deposit funds) under the same terms, to each State employee who opens a current account with the Bank and has his monthly salary credited to this account. The Bank is entitled to provide credit in amounts exceeding NIS 7,000 out of Bank funds, at an interest rate not exceeding the prime rate + 1.4%. Within the framework of winning the tender, the Bank was given the right to collect loan repayments which it will grant for deductions from the State employee's salaries.

The commissions that the bank is entitled to collect are restricted to the amounts stated in an annex to the tender; a large part of the retail banking services is provided free of charge. As to other services not stated in the agreement, the Bank may collect a maximum of 70% of the amount of the charge stated in the Bank's tariff.

According to the terms of the tender, the Bank is to provide services to State employees at at least 50 branches in locations determined in the tender terms.

18. **An agreement for provision of services to the teaching staff.** On July 11, 2007, the Bank was informed of its success in tender issued by the Accountant General for the granting of subsidized loans to teachers and of conditional loans to education students (services provided at that time by the First International Bank of Israel Ltd.). The loans are to be granted at the Bank's responsibility. On September 26, 2007, the Bank signed an agreement in this matter. The original period of engagement was for five years, as from November 1, 2007 to October 31, 2012. (The Bank has announced its decision to continue the period of benefits for the teaching staff, both existing and new customers, for five additional years).

Within the framework of the tender, the Bank has transferred to a special deposit an amount of NIS 360 million for five years, which is to serve for the granting of loans to teachers only. At the end of the period, the principal amount will be repaid to the Bank together with CPI increments (the Accountant General will be entitled to interest on the loans granted out of the deposit funds as well as interest on the balance of the deposit). Loans to students, granted out of the State budget, are conditional and could be converted into grants according to criteria of the Ministry of Education.

On December 31, 2012, the Accountant General and the Bank signed an Addendum to the extension of the agreement, until December 31, 2013, or until thirty days prior notice is given by the customer for the termination of the engagement and of the extension, whichever is earlier ("period of extension").

During the period of extension and the additional extension period, the Bank shall continue to grant all the services determined in the agreement and in the tender documents.

The Bank has also extended the effect of the unconditional self undertaking in the amount of NIS 10 million, given as part of the terms of the tender. This undertaking shall remain in effect until September 30, 2014. However, if the Government of Israel shall notify before June 30, 2014, of the termination of the engagement and of the extension being the subject of the Addendum ("early termination"), then the effect of the self undertaking will terminate at the end of six months from the date of the early termination.

On January 16, 2014, the Accountant General Department at the Israeli Ministry of Finance published a notice for the submission, of proposals to participate in a tender for the granting of loans to educational staff and of conditional grants to students at colleges of education.

The last date for submission of proposals in accordance with the instruction of the tender, is February 20, 2014. On February 20, 2014, the Bank submitted a proposal in accordance with the provisions of the tender.

The winner in the tender will be required to sign an agreement for the granting, of loans to educational staff and of conditional grants in accordance with the tender for a period of five years as from July 1, 2014 and until June 30, 2019.

It has recently been announced that another bank had been successful in the tender.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

19. **Sale of investment in KFS (and an option agreement for the purchase of KFS shares).** On March 30, 2009, DCMI signed an agreement for the sale to Karden of all of it holdings in the shares of KFS - 11.01% of the issued and paid share capital of KFS at date of issue - in consideration for Euro 38.5 million. This amount is paid as follows: An amount of Euro 30 million was paid upon signing the agreement and an amount of Euro 8.5 million is payable at the end of seven years from date of the agreement, without interest. In addition to the above, the Bank has approved a new credit facility to the Karden Group in amounts exceeding the said consideration amount.

    At the same time, DCMI signed an option agreement for the purchase of 5% of the share capital of KFS by way of an issue of shares. The Option is exercisable within six years from date of signing the agreement, at an exercise price of Euro 386 million together with interest of 5% per annum (subject to adjustments specified in the agreement). For the purpose of interest accumulation, exercise of the option in the course of the first two years, will be considered as thought the option was exercised at the end of two whole years. The option is exercisable at any time within the said period of six years, unless this period is shortened following the listing for trade of the KFS shares or another event of their sale (as these are specified in the option agreement). If and when DCMI exercises the option, then it will be entitled to rights including a "tag along" right in the case of sale of a controlling interest by Karden and the right to participate in future allotments of shares. The shares of DCMI are also subject to the right of first refusal by Karden, and all subject and in accordance with the terms prescribed in the option agreement.

    An early repayment of the deferred consideration was agreed upon at the end of 2013, together with a waiver by DCMI of the option to purchase the shares of KFS.

20. **Sale of the remaining interest in MDB's provident fund activities.** In July 2007, MDB entered into an agreement with a group of investors, for the sale of its control (51%) of the activities of its provident funds. According to the said agreement, the activities of the provident funds were transferred to Hadas Mercantile Provident Funds, in which MDB held a 49% interest.

    On April 13, 2010, MDB informed Hadas Arazim Ltd. of its intention to exercise the PUT option, received under the said agreement, for the sale of its 49% interest in Hadas Mercantile Provident Funds.

    Within the framework of the process conducted by the parties for the implementation of the realization notice, a dispute arose between MDB and the purchasers' group regarding the proper interpretation of certain sections in the agreement relating to the computation of the sale proceeds. MDB recorded in the financial statements a net profit in the amount of approx. NIS 28 million, derived from the amount that is not in dispute between the parties (the amount not in dispute was transferred to MDB in accordance with an agreement between the parties).

    According to a mechanism for the settlement of disputes determined in the agreement between the parties, a referee has been appointed to settle the dispute. The arbitrator gave his decision to the parties on February 6, 2012, according to which, Mercantile Discount Bank is entitled to an additional sum in the amount of NIS 11 million. An agreement was signed between the parties on March 31, 2013, whereby the purchaser group agreed to increase the consideration for the sale by NIS 8 million, in exchange for the full settlement of the dispute. Accordingly, Mercantile Discount Bank has recognized the additional consideration as income in the reported period.

21. **Sale of the basket certificate operations.** A transaction was consummated on March 24, 2011 between Tafnit, a wholly owned subsidiary of the Bank, and Dash Apex Holdings Ltd. (hereinafter - "Dash"), Synergetica Ltd. (controlled by Michael Davis) (hereinafter - "Synergetica") and Mr. Michael Davis. According to which, Tafnit sold to Synergetica its full share of the basket certificates and indices products operations that were conducted under the brand name of "Tachlit basket certificates", including its shares in the companies through which the said operations were conducted (hereinafter - "the sold operations" and the "designated companies" respectively), this in consideration for NIS 68 million, subject to adjustments determined. Net gain of NIS 29 million was recorded in the 2011 financial statements, in respect of the above transaction. In computing these gains, provisions have been taken into account in accordance with the assessments of the Bank's and of Tafnit managements regarding certain indemnifications granted as part of the transaction. Within the framework of the preparation of the financial statements as of December 31, 2013, the Bank and Tafnit have reexamined the exposures in respect of indemnifications granted, as stated, and have decided, in the light of certain developments and on the basis of their legal counsel's opinion, to cancel the balance of the provision in respect of the indemnifications, in the amount of NIS 15 million.

20. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, SWAP, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.
   The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Ma'of activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.
   c. Market liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.
2. Where a derivative instrument is not intended as a qualified hedging, it is stated according to its fair value, and changes in fair value being taken currently to the income statement. Some of these derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (ALM) and the balance of which if defined as other derivatives.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the income statement. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions.
   The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

20. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value.

When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as income or loss in the income statement for the reported period.

6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the income statement, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.

7. Cash flow hedge

   The subsidiary IDB New York designates certain derivatives as hedge for cash flow. The accounting treatment of the change in the fair value of derivatives that hedge exposure to the change in the cash flow produced by an asset, liability or an anticipated transaction is dependent on the effectiveness of hedge ratios.

   - The effective part of the change in the fair value of a derivative, designated as a cash flow hedge, is reported in the first place in equity, as a component of other comprehensive income, and then, when the anticipated transaction affects the statement of income, it is classified to the statement of income.
   - The non-effective part of the change in the fair value of the derivative designated as above is immediately recognized in the statement of income.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 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	-	1,869	-	-	-	1,869
Total	**-**	**1,869**	**-**	**-**	**-**	**1,869**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,869				
B. ALM derivatives[1][2]						
Futures contracts	-	1,041	-	-	-	1,041
Forward contracts	6,648	11,582	14,921	-	-	33,151
Marketable option contracts						
Options written	-	-	1,098	-	-	1,098
Options purchased	-	-	1,101	-	-	1,101
Other option contracts						
Options written	-	300	8,702	-	-	9,002
Options purchased	-	200	8,646	[3]-	-	8,846
Swaps	-	75,336	53,772	-	-	129,108
Total	**6,648**	**88,459**	**88,240**	**-**	**-**	**183,347**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	38,143				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	-	-
Forward contracts	-	-	1,483	-	6	1,489
Marketable option contracts						
Options written	-	-	27	13,914	13	13,954
Options purchased	-	-	27	13,914	13	13,954
Other option contracts						
Options written	-	89	279	353	153	874
Options purchased	-	92	277	356	154	879
Swaps	-	5,023	-	-	-	5,023
Total	**-**	**5,204**	**2,093**	**28,537**	**339**	**36,173**
Of which, interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,512				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,078			

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) An amount lower than NIS 1 million

20. 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)

	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	[3]-	-	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			

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) An amount lower than NIS 1 million

20. 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

	December 31, 2013					
	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	-	52	-	-	-	52
Negative gross fair value	-	32	-	-	-	32
B. ALM derivatives[1]						
Positive gross fair value	10	2,341	1,259	-	-	3,610
Negative gross fair value	62	2,630	1,712	-	-	4,404
C. Other derivatives						
Positive gross fair value	-	37	16	414	2	469
Negative gross fair value	-	36	26	413	2	477
D. Total[4]						
Positive gross fair value[2]	10	2,430	1,275	414	2	4,131
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance of assets stemming from derivative instruments[2]	**10**	**2,430**	**1,275**	**414**	**2**	**4,131**
Of which: Balance sheet amount of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[5]-	[5]-	8	402	1	411
Negative gross fair value [3]	62	2,698	1,738	413	2	4,913
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance of liabilities stemming from derivative instruments[3]	**62**	**2,698**	**1,738**	**413**	**2**	**4,913**
Of which: Balance sheet amount of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[5]-	1	103	397	-	501

For footnotes see next page.

20. 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

	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[4]						
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

Footnotes:

(1) Derivatives comprising a part of the asset and liability management system which were not designated for hedging relations.

(2) Of which, NIS 51 million (December 31, 2012: NIS 43 million) of positive gross fair value of embedded derivative instruments.

(3) Of which, NIS 15 million (December 31, 2012: NIS 14 million) of negative gross fair value of embedded derivative instruments.

(4) For details regarding the implementation of the instructions of the Supervisor of Banks regarding the setoff of assets and liabilities, see Note 1 D 8.

(5) An amount lower than NIS 1 million

20. 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[1]

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2013					
Balance sheet amount of assets regarding derivative instruments[2]	189	2,857	8	41	1,036	4,131
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,629)	(2)	-	(444)	(3,076)
Credit risk mitigation in respect of cash collateral received	-	(55)	-	(13)	-	(68)
Net amount of assets in respect of derivative instruments	**188**	**173**	**6**	**28**	**592**	**987**
Off-balance sheet credit risk in respect of derivative instruments[4]	-	333	28	97	919	1,377
Total credit risk in respect of derivative instruments	**188**	**506**	**34**	**125**	**1,511**	**2,364**
Balance sheet amount of liabilities in respect of derivative instruments[3]	213	3,793	11	-	896	4,913
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,629)	(2)	-	(444)	(3,076)
Pledged cash collateral	-	(845)	(5)	-	-	(850)
Net amount of liabilities in respect of derivative instruments	**212**	**319**	**4**	**-**	**452**	**987**
	December 31, 2012					
Balance sheet amount of assets regarding derivative instruments[2]	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[4]	-	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[3]	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**

Footnotes:

(1) For details regarding the implementation of the instructions of the Supervisor of Banks regarding the setoff of assets and liabilities, see Note 1 D 8.

(2) Of which, a balance sheet amount of standalone derivative instruments in the amount of NIS 4,080 million (December 31, 2012:NIS 3,727 million), included in the item "Assets in respect of derivative instruments".

(3) Of which, a balance sheet amount of standalone derivative instruments in the amount of NIS 4,898 million (December 31, 2012:NIS 4,708 million), included in the item "Liabilities in respect of derivative instruments".

(4) 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.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

C. Due dates - par value - consolidated year and balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	December 31, 2013				
Interest rate contracts					
Shekel/CPI	1,897	2,454	1,995	302	6,648
Other	9,435	20,439	43,646	22,012	95,532
Foreign currency contracts	56,517	27,923	4,019	3,952	92,411
Contracts on shares	27,868	225	444	-	28,537
Commodities and other contracts	43	160	136	-	339
Total	**95,760**	**51,201**	**50,240**	**26,266**	**223,467**
	December 31, 2012				
Interest rate contracts					
Shekel/CPI	625	1,650	1,200	248	3,723
Other	13,723	17,137	32,008	20,132	83,000
Foreign currency contracts	48,318	21,763	4,485	3,920	78,486
Contracts on shares	11,076	100	394	-	11,570
Commodities and other contracts	7	23	276	-	306
Total	**73,749**	**40,673**	**38,363**	**24,300**	**177,085**

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. GENERAL

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of future cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date. Discounting the future cash flows was made, where possible, by discount rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. METHODS AND MAIN ASSUMPTIONS USED IN ESTIMATING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Credit to the public, net - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2013, the Bank has classified some 98% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2012: 95%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 24 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1 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 112 million (compared to NIS 80 million 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 on December 31, 2013 3.74 years, compared to 3.35 years, taking into consideration the forecast for early redemptions.

Deposits, bonds and subordinated capital notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and subordinated capital notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate capital notes are stated at market value.

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 24 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 on December 31, 2013 to 3.28 years, compared to 3.10 years, taking into consideration the forecast for early redemption.

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance of commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 19 A.

D. Composition - consolidated

	December 31, 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	25,319	6,088	-	19,270	25,358
Securities(2)	41,325	26,752	14,072	751	41,575
Securities borrowed or purchased under resale agreements	102	-	-	102	102
Credit to the public, net	115,859	2,055	6	114,486	116,547
Credit to Governments	1,835	-	-	1,836	1,836
Assets in respect of derivative instruments	4,080	411	2,881	788	4,080
Other financial assets	1,593	4	51	1,538	1,593
Financial assets held for sale(4)	4,118	420	1,935	1,763	4,118
Total financial assets	**(3)194,231**	**35,730**	**18,945**	**140,534**	**195,209**
Financial liabilities:					
Deposits from the public	148,928	14,813	98,918	35,592	149,323
Deposits from banks	4,213	15	3,581	652	4,248
Deposits from the Government	972	1	765	220	986
Securities loaned or sold under repurchase agreements	3,644	-	-	4,026	4,026
Subordinated capital notes	11,664	10,894	153	2,318	13,365
Liabilities in respect of derivative instruments	4,898	411	4,037	450	4,898
Other financial liabilities	7,699	103	15	7,581	7,699
Financial liabilities held for sale(4)	3,887	1,105	-	2,782	3,887
Total financial liabilities	**(3)185,905**	**27,342**	**107,469**	**53,621**	**188,432**
Off-balance sheet financial instruments					
Transactions involving credit risk	81	-	-	81	81

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 3.

(3) Of which: assets and liabilities in the amount of NIS 51,107 million and NIS 59,785 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 21 E - 21 F.

(4) See Note 8a.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

D. Composition - consolidated (continued)

	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 Governments	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	43	1,051	1,108
Influence of deduction agreements	[4]-	-	-	-	[4]-
Total financial assets	**[3]194,630**	**37,359**	**21,364**	**136,774**	**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 3.

(3) Of which: assets and liabilities in the amount of NIS 54,290 million and NIS 53,549 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 21 E - 21 F.

(4) Reclassified, see note 1 D 8.

(5) Reclassified.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis

	December 31, 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	Balance sheet balance
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	19,119	813	-	-	19,932	19,932
Of foreign governments	172	159	-	-	331	331
Of Israeli financial institutions	570	58	-	-	628	628
Of foreign financial institutions	-	2,748	-	-	2,748	2,748
Mortgage-backed-securities and Assets -backed-securities	-	6,724	-	-	6,724	6,724
Of others in Israel	558	135	-	-	693	693
Of others abroad	-	52	-	-	52	52
Shares	101	-	-	-	101	101
Total available-for-sale securities	**20,520**	**10,689**	**-**	**-**	**31,209**	**31,209**
Trading Securities						
Of the Israeli Government	2,019	-	-	-	2,019	2,019
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	2	-	-	-	2	2
Of foreign financial institutions	-	9	-	-	9	9
Mortgage-backed-securities and Assets -backed-securities	-	50	-	-	50	50
Of others in Israel	89	-	-	-	89	89
Of others abroad	3	2	-	-	5	5
Shares	12	1	-	-	13	13
Total trading securities	**2,125**	**66**	**-**	**-**	**2,191**	**2,191**
Credit to the public in respect of securities loaned	2,055	6	-	-	2,061	2,061
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	10	-	10	10
Other Interest Rate Contracts	-	2,319	111	-	2,430	2,430
Foreign Exchange Contracts	9	548	667	-	1,224	1,224
Shares Contracts	402	12	-	-	414	414
Commodity and other Contracts	-	2	-	-	2	2
Total assets in respect of derivative instruments	411	2,881	788	-	4,080	4,080
Other	-	51	-	-	51	51
Assets in respect of the "Maof" market operations	4	-	-	-	4	4
Total assets	**25,115**	**13,693**	**788**	**-**	**39,596**	**39,596**
Liabilities						
Deposits from the public in respect of securities borrowed	1,213	9	-	-	1,222	1,222
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	62	-	62	62
Other Interest Rate Contracts	-	2,696	-	-	2,696	2,696
Foreign Exchange Contracts	9	1,339	388	-	1,736	1,736
Shares Contracts	402	1	-	-	403	403
Commodity and other Contracts	-	1	-	-	1	1
Total liabilities in respect of derivative instruments	411	4,037	450	-	4,898	4,898
Other	-	15	-	-	15	15
Commitments in respect of the "Maof" market operations	4	-	-	-	4	4
Short sales of securities	99	-	-	-	99	99
Total liabilities	**1,727**	**4,061**	**450**	**-**	**6,238**	**6,238**

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis (continued)

	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[1]	Total fair value	Balance sheet balance
	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	[2]-	-	-	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	[3]830	[3]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**	**17,528**	**371**	**-**	**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	342
Total liabilities	**1,163**	**4,065**	**554**	**-**	**5,782**	**5,782**

Notes:
(1) Reclassified, see note 1 D 8.
(2) Reclassified.
(3) Derivative instruments, the credit risk in respect of which is measured on the basis of unobservable inputs, were classified from level 2 to level 3 in accordance with a clarification of the Supervisor of Banks.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Items measured at fair value - consolidated

2. Items measured according to fair value not on a recurring basis

	December 31, 2013				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2013
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	1,297	1,297	(284)
Other	-	3	13	16	(3)

	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)1,913	1,913	(1)(412)
Other	-	(2)4	(2)8	12	(2)

Notes:
(1) Reclassified - change in the contents of collateral-contingent credit presented in the framework of the item.
(2) Reclassified in respect of subsidiary.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

F. Changes in items measured at fair value on a recurring basis included in item 3 - consolidated

1. For 2013:

	Fair value as at December 31, 2012	Total realized and unrealized gains (losses) included in the statement of income	Issuences	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at December 31, 2013	Unrealized gains (losses) in respect of held instruments as at December 31, 2013
	in NIS millions								
Net Liabilities (Assets) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	64	(1)(7)	-	-	19	-	-	52	(1)1
Other Interest Rate Contracts	(80)	(1)63	-	-	(15)	(23)	6	(111)	(1)98
Foreign Exchange Contracts	199	(1)371	2	(110)	216	(1)	-	(279)	(1)313
Total	**183**	**427**	**2**	**(110)**	**220**	**(24)**	**6**	**(338)**	**412**

2. For 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 December 31, 2012	Unrealized gains (losses) in respect of held instruments as at December 31, 2012
	in NIS millions							
Net Liabilities (Assets) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	77	(1)(12)	-	-	25	-	64	(1)(10)
Foreign Exchange Contracts	814	(1)(14)	-	-	367	28	433	(1)(146)
Total	**891**	**(26)**	**-**	**-**	**392**	**28**	**497**	**(156)**

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.

G. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in 2013, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

In the second quarter of 2012, all of the exotic options were transferred from Level 3 to Level 2, since the significant unobservable input have become observable (total of NIS 28 million as of June 30, 2012).

In the third quarter of 2012, in accordance with a clarification of the Supervisor of Banks, derivative instruments, the credit risk in respect of which is measured on the basis of unobservable inputs, were reclassified from Level 2 to Level 3 (a total amount of NIS 357 million as of September 30, 2012).

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

H. 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

	Fair value as at December 31, 2013	Valuation Techniques	Unobservable inputs	Range of Inputs (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	1297	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	13	Assessments and evaluation, expert valuation	Real estate market inputs, company value	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Other Interest Rate Contracts	111	Discounted cash flow	CVA	From 0.00% to 3.22% (0.04%)
Foreign Exchange Contracts	279	Discounted cash flow	One year period inflation expectations	From -0.09% to 1.95% (1.54%)
			CVA	From 0.00% to 18.25% (1.26%)
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	52	Discounted cash flow	One year period inflation expectations	From 0.07% to 1.95% (1.41%)
			CVA	From 0.00% to 9.27% (0.79%)

	Fair value as at December 31, 2012	Valuation Techniques	Unobservable inputs	Range of Inputs (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	(1)1,913	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	(2)8	Expert valuation	Company value	
B. Items measured at fair value on a recurring basis				
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	64	Discounted cash flow	One year period inflation expectations	From 0.34% to 2.38% (1.66%)
Foreign Exchange Contracts	433	Discounted cash flow	One year period inflation expectations	From 0.32% to 2.39% (1.77%)

Footnotes:
(1) Reclassified - change in the contents of collateral - contingent credit presented in the framework of the item.
(2) Reclassified in respect of a subsidiary.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (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, and adjustments regarding counterparty credit risk (CVA).

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).

The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES

A. Balances

	December 31, 2013											
	Interested parties[1]										Related parties held by the Bank[1]	
	Controlling Shareholders[2]		Other Shareholders[3]		Key management personnel[4]		Others[5]		Whoever was an interested party at time of the transaction		Affiliated companies[6]	
	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)
	in NIS millions											
Assets:												
Deposits with banks	-	-			-	-	-	-	-	-	97	122
Credit to the public	-	-			1	2	390	455	**-	**-	330	377
Provision for credit losses	-	-			-	-	(16)	(17)	-	-	(3)	(3)
Credit to the public, net	-	-			2	1	374	438	**-	**-	327	374
Investments in affiliated companies[9]	-	-			-	-	-	-	-	-	1,668	1,822
Other assets	-	-			-	-	-	11	-	-	23	38
Liabilities:												
Deposits from the public	-	-	485	485	4	4	115	2,053	-	-	68	73
Deposits from banks	-	-			-	-	-	-	-	-	138	562
Subordinated debt notes	-	-			-	-	75	93	-	-	6	7
Other liabilities	-	-			38	38	232	241	-	-	25	57
Shares (included in equity)[10]	-	-	3,539	3,539	**-	**-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[11]	-	-	4	4	3	3	5	13	-	-	53	62

* In addition, a controlling shareholder gave a personal guarantee in the amount of NIS 1 million for credit received by a third party .

** Amount lower than NIS 1 million.

For notes to the tables see after Note D.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

A. Balances (continued)

	December 31, 2012[13]											
	Interested parties[1]										Related parties held by the Bank[1]	
	Controlling Shareholders[2]		Other Shareholders[3]		Key management personnel[4]		Others[5]		Whoever was an interested party at time of the transaction		Affiliated companies[6]	
	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)
	in NIS millions											
Assets:												
Deposits with banks	-	-	-	-	-	-	-	-	-	-	23	402
Credit to the public	-	-	-	-	1	1	273	365	-	-	296	387
Provision for credit losses	-	-	-	-	-	-	(10)	(10)	-	-	(1)	(1)
Credit to the public, net	-	-	-	-	1	1	263	355	-	-	295	386
Investments in affiliated companies[9]	-	-	-	-	-	-	-	-	-	-	1,724	1,724
Other assets	-	-	-	-	-	-	1	1	-	-	32	82
Liabilities:		-	-	-								
Deposits from the public	7	11	-	-	4	6	6	21	-	-	(12)22	(12)47
Deposits from banks	-	-	-	-	-	-	-	-	-	-	112	163
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	8	9
Other liabilities	-	-	-	-	24	24	29	29	-	-	41	57
Shares (included in equity)[10]	2,978	2,978	-	-	**-	**-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[11]	3	3	-	-	3	3	12	17	0	0	98	124

* In addition, a controlling shareholder gave a personal guarantee in the amount of NIS 10 million for credit received by a third party .

** Amount lower than NIS 1 million.

For notes to the tables see after Note D.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

B. Summarized results of transactions with related and interested parties

	in NIS millions				
	Interested parties[1]				Related parties held by the Bank[1]
	Controlling Shareholders[2]	Other Shareholders[3]	Key management personnel [4]	Others[5]	Affiliated companies[6]
	For the year ended December 31, 2013				
Interest income, net*	-	(11)	-	8	1
credit loss expenses	-	-	-	(5)	2
Non-interest income	-	-	-	(12)	(54)
Operating and other expenses**	-	-	(51)	-	(39)
Total	**-**	**(11)**	**(51)**	**(9)**	**(90)**
	For the year ended December 31, 2012				
Interest income, net*	-	-	-	13	[12](3)
credit loss expenses	-	-	-	(9)	-
Non-interest income	-	-	-	(12)	(50)
Operating and other expenses**	-	-	(42)	-	[13](48)
Total	**-**		**(42)**	**(8)**	**(101)**
	For the year ended December 31, 2011				
Interest income, net*	-	-	-	10	[12](10)
credit loss expenses	-	-	-	-	(1)
Non-interest income	-	-	-	-	[13]86
Operating and other expenses**	-	-	(55)	-	[13](32)
Total	**-**		**(55)**	**10**	**43**

* See Note D.

** See Note C.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

C. Remuneration and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2013		2012		2011	
	Key management personnel(4)		Key management personnel(4)		Key management personnel(4)	
	Total benefit*	Number of benefit Recipients	Total benefit**	Number of benefit Recipients	Total benefit***	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf	46	19	38	17	49	21
Directors who are not employed by the Bank or on its behalf	6	11	4	14	6	15
Total	**52**	**30**	**42**	**31**	**55**	**36**

*of which short-term employee benefits: NIS 41 million, other long-term benefits and post employment benefits: NIS 7 million , share based payments NIS 3 million reduction of expense.
**of which short-term employee benefits: NIS 33 million, other long-term benefits and post employment benefits: NIS 3 million , share based payments NIS 2 million.
***of which short-term employee benefits: NIS 45 million, other long-term benefits and post employment benefits: NIS 8 million , NIS 4 million share based payments reduction of expense.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

D. Interest income, net, in transactions of the Bank and its consolidated subsidiaries with related and interested parties*

	Consolidated			Of which from Affiliated Companies		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
A. On assets						
Credit to the public	27	18	20	11	5	9
Deposits with Banks	-	-	-	-	-	(1)
Total	**27**	**18**	**20**	**11**	**5**	**8**
B. On liabilities						
Deposits from the public	(24)	(12)(1)	(12)(8)	(6)	(12)(1)	(12)(7)
Deposits from the banks	(4)	(7)	(11)	(4)	(7)	(11)
Subordinated capital notes	(1)	-	(1)	-	-	-
Total	**(29)**	**(8)**	**(20)**	**(10)**	**(8)**	**(18)**
Total Interest income, net	**(2)**	**10**	**-**	**1**	**(3)**	**(10)**

* In respect of transactions made on the same terms that would have been made with a person that is not a related or interested party.

Footnotes: relating to Note 22 A,B,C & D:

(1) Interestee party - as defined in item 80 d (4) of the public Reporting Directives.
Related party - as defined in International Accounting standard 24 Disclosure regarding a related party who is not an interested party.
(2) Controlling shareholder – as defined in the Securities Law.
(3) Other shareholders or whoever is entitled to appoint one director or more of the directors or the President & CEO.
(4) Key management personnel - in accordance with item 80 d (4) of the public Reporting Directives.
(5) In accordance with item 80 d (5) of the public Reporting Directives.
(6) Affiliated Companies- in accordance with item 80 d (8) of the public Reporting Directives.
(7) The balance at balance sheet date.
(8) The highest balance during the year on the basis of month-end balances.
(9) Details of these items are included also in Investments in Investee Companies - Note 6.
(10) Holdings of interested parties and of related parties in the equity of the banking corporation.
(11) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.
(12) Reclassified following the "raising of curtain", within the framework of which, assets and liabilities of third parties, held by a trust company being a related party, have been attributed to those third parties, the assets, liabilities and business results in respect thereof have been eliminated.
(13) Reclassified following the improvement of data of a consolidated subsidiary.

E. (1) On January 31, 2006, the transaction signed on February 1, 2005 entered into by M.I. Holdings Ltd. and the Government of Israel (hereinafter: "the Government") on the one hand, and a corporation controlled by the Bronfman Family and others and a corporation controlled by Mr. Rubin Schron (hereinafter together: "the Buyers") on the other hand, for the sale of a core controlling interest in the Bank. Following the transaction closure, as above, control of the Bank has passed to the Bronfman-Schron Group. The Bronfman-Schron group was in control of the Bank until December 3, 2013, (see below).

The permit issued to the Buyers by the Governor of the Bank of Israel to jointly hold the control and means of control in the Bank, determined, among other things that members of the Group, their relatives or corporations under the control of any of them, are not to receive management fees or any consideration or other benefit from the Bank or from corporations under the control of the Bank; however, they are permitted to provide services normally provided by suppliers of such services and at market price, as long as a written notice has been given beforehand to the Supervisor as to the type of service and the consideration, at least 14 business days prior to providing the service; in an event that the Supervisor informs that a service is not of the type provided ordinarily to others, or that the consideration for it is not reasonable, such service shall not be given.

The provisions of this Section did not apply to Directors' remuneration payable to all Directors of the Bank in equal amounts.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

(2) On December 3, 2013, following a sale of shares transaction, the Bronfman-Schron group ceased to be in control of the Bank, and the Bank became a bank with no core controlling interest.

The Appendix to the permit by the Governor of the Bank of Israel for the holding of means of control (hereinafter : "holding permit"), dated December 1, 2013, states that no transactions whatsoever may be entered into between the holders and the Bank during the transitional period (as defined in the holding permit), unless a specific prior approval in writing is obtained from the Supervisor of Banks. Furthermore, during the transitional period, the holders, their relatives or corporations under the control of any of them shall not receive management fees or any other consideration or benefit from the Bank or from corporations controlled by the Bank, though they may provide services, which are usually provided by the supplier thereof, at market prices, if a prior approval in writing is obtained from the Supervisor of Banks.

(3) On February 9, 2014, the Governor of the Bank of Israel signed the amendment to the holding permit, revised following the passing away of the late Edgar M. Bronfman on December 21, 2013.

(4) On December 31, 2013, the Bronfman group held 10.9% of the means of control in the Bank and Mr. Schron held 7.26% of the means of control in the Bank, and, as stated, they were no longer the controlling shareholders of the Bank. Accordingly, relevant balances have been presented in item "B" above as part of "other shareholders" (December 31, 2012: as part of "Controlling shareholders"). Notwithstanding, whereas the control of the Bank was in the hands of the Bronfman-Schron group during most of 2013, the condensed business results data for 2013, if any, are presented in item "B" above, as part of "Controlling shareholders".

F. Remuneration for the Chairman of the Board and to the President & CEO

Employment agreement with the Chairman of the Board. The Bank's Chairman of the Board took office on January 3, 2010. Following receipt of the confirmation of the Audit Committee of the Board and following a review of the recommendation of an ad-hoc Committee of the Board in the matter of the remuneration to the Chairman of the Board, the Board of Directors resolved on October 4, 2010, to approve the Bank’s engagement in a personal employment agreement with the Bank's Chairman of the Board. The period of the agreement will be five years beginning on January 3, 2010 (hereinafter: "the agreement period"). The Chairman’s Employment agreement was approved by a special General Meeting of Shareholders held on November 10, 2010.

The Chairman of the Board of Directors is engaged in a full-time position and is not entitled to engage in any other fully paid occupation without the prior consent of the Board of Directors. In consideration for executing his duties, the Chairman is entitled to a monthly salary of NIS 150,000, to be updated every three months in accordance with the rise in the CPI as compared with the CPI published in January of 2010.

The Chairman is entitled to an annual award, as detailed in subsection (G) below. The Chairman is also entitled to remuneration of the "phantom" type, derived from the performance of the Bank's shares, as detailed in Note 13 D (1). The agreement states also the duties imposed on the Chairman, among which are a "cooling-off" and non-competition periods of six months and a confidentiality duty.

The Chairman is entitled to paid vacation, sick leave, convalescence pay and a suitable motor vehicle, social benefits (severance pay in accordance with the Law, provident fund, loss of work ability insurance and further education fund) as well as other benefits.

Upon termination of office, the Chairman is entitled, according to the agreement, to severance pay under the Law, this in addition to his entitlement to the funds and rights accumulated in his favor in respect of the provisions for pension to be created by the Bank. In addition, the Chairman is entitled to early notice of six months, during which he will be entitled to remuneration and related benefits in accordance with the agreement and to an adaptation period of six months.

However, if the early notice period begins before the end of three years since the beginning of the agreement period, following termination of office initiated by the Bank, or, alternatively, due to the transfer of control of the Bank, then the adaptation period will be nine months. During the adaptation period the Chairman will be entitled to a monthly salary and related benefits in accordance with the engagement agreement. In the event that the agreement period comes to its end and is not extended, the Chairman will be entitled to an early notice period as well as to an adaptation period of six months.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Employment agreement of the President & CEO. A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve in accordance with the remuneration policy for the Bank`s officers (see Note 16 L), which had been approved by the said meeting, the terms of office and employment of the Bank`s incoming President & CEO, after these had been approved by the Board of Directors and the Remuneration Committee for a period of five years since the date on which the tenure of office begins. During the period of employment the President & CEO will be employed in a fulltime position and shall not be permitted to engage in any other gainful occupation, unless the prior consent of the Board of Directors is obtained.

In consideration for the fulfillment of her duties, the President & CEO will be entitled to a monthly salary of NIS 180,000 (gross), to be updated once in every quarter in accordance with the rise in the CPI as compared with the CPI published in January 2014. In each calendar year during her employment period, the President & CEO will be entitled to an additional monthly salary (13th month salary) in respect of which she will not be entitled to social benefits.

In the award year 2014, the President & CEO will be entitled to a proportionate part of the annual award and of the current award, in respect of the period in which she will officiate in the Bank in this year.

The President & CEO is entitled to paid vacation days (the accumulation of which is limited to fifty days), paid sick leave, recreation pay, a suitable motor vehicle, social benefits (pension arrangement – executives' insurance, compensation fund and/or pension fund, including provident contributions; further education fund; loss of work ability insurance), reimbursement of certain expenses and additional benefits.

The President & CEO is entitled to an annual award, current award and to special awards, as detailed in item H below. The President & CEO is also entitled to a one-off recruitment award in the amount of NIS 500 thousand, which does not entitle her to social benefits in respect thereof.

The total variable remuneration in respect of an award year shall not exceed 100% of the fixed remuneration for that year ("fixed remuneration" and "variable remuneration" – within the meaning of these terms in instructions of the Supervisor of Banks). To the extent that the variable remuneration to which the President & CEO would be entitled in respect of any award year exceeds the said limit, then the total variable remuneration in respect of that year shall be reduced to the permitted limit. The approved terms include exceptions from the said rule, in relation to the one-off recruitment award and to an award in respect of special contribution, if at all approved.

As part of the termination of employer/employee relations, whether initiated by the President & CEO or by the Bank , the President & CEO would be entitled to severance pay, in addition to the current contributions made to her pension arrangement funds in respect of severance compensation during the period of employment, which shall be computed as a multiplication of her last monthly salary by the number of years in office. Furthermore, she would also be entitled to an adaptation award amounting to six monthly salaries with the addition of the social and other benefits related thereto.

The said severance pay and one half of the said adaptation award are considered variable retirement terms, the entitlement to them is conditional upon the average return on capital during the period of office of the President & CEO or in the last four years of her office, whichever is higher, being at the rate of 4% and above. Payment of the variable retirement terms shall be made in four installments. The first installment comprising 70% of the total amount shall be paid soon after the date of termination of employer/employee relations. The balance of the amount shall be paid in three equal annual installments, subject to the absence of material deviations from capital adequacy ratios and from the minimum core capital, as determined in instructions of the Supervisor of Banks.

G. Awards to the Chairman of the Board and to the former President & CEO

1. **Awards in respect of 2011 and thereafter.** Beginning with the year 2011, for each calendar year or a part thereof, in which the Chairman of the Board or the former President & CEO, respectively, will be in office, the annual award will be granted in accordance with attainment of indices as detailed below, the targets in respect of which shall be based upon the targets set in the Bank's work plans for the years 2011-2014 as regards the Chairman of the Board (2011-2015 as regards the former President & CEO) and in accordance with principles, the essence of which is stated below. The said annual award to the Chairman of the Board shall be approved in each year, subject to the law, whether by the Audit Committee and the Board of Directors, on condition that predetermined minimum targets in respect of the quantitative indices (see hereunder) shall be approved by the General Meeting of Shareholders, or annually by the General Meeting of Shareholders following approval by the Audit Committee and the Board of Directors.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Ceiling for the annual award. The annual award to the Chairman of the Board shall be limited to an amount not exceeding NIS 2.4 million (gross), linked to the CPI for December 2009. The annual award to the former President & CEO was limited to an amount not exceeding NIS 2.8 million (gross), linked to the CPI for November 2010.

Minimum terms for entitlement. Entitlement in respect of any calendar year shall be conditioned upon the fulfillment in that particular year of all the following cumulative minimum terms:

1) The targeted return on risk assets determined in the work plan for the year of the award (in percentages) net of the actual return on risk assets (as defined in the plan) (hereinafter: "the return differential on risk assets") shall be at a rate lower than 3%;
2) The ratio of total capital adequacy and the core capital ratio of the Bank according to its annual financial statements for that year, shall not fall below the ratio of total capital adequacy and the core capital ratio of the Bank, respectively, as determined in the work plan for that calendar year;
3) The Chairman of the Board and the President & CEO, respectively, have been awarded a grade higher than "1" with respect to the qualitative index.

Installment payments. The payment of the annual award in respect of a particular calendar year shall be made in three installments: an amount of 60% of the annual award will be paid no later than thirty days following the issue of the Bank's financial statements for the year of the award. Two deferred award payments of 20% of the award each will be paid following the issue of the financial statements for each of the two consecutive years to the year of the award (linked to the CPI).

Negative award. In a calendar year, in which the "the return differential on risk assets" is higher than 2%, a "negative award" shall be charged, computed as follows: "the return differential on risk assets" minus 2%, multiplied by 100, multiplied by the "cumulative annual award". In this respect, the "cumulative annual award" shall equal the full annual award computed for that calendar year (100%) with the addition of deferred award payments in respect of prior years that should have been paid in that same calendar year.

The negative award amount shall not exceed in any event in a particular year the amount of the cumulative annual award.

In the event that "the return differential on risk assets" in a particular calendar year will be at the rate of 3% or higher, then no annual award payment shall be made in respect of that calendar year, neither shall be paid the deferred award installments in respect of prior years that should have been paid on date of granting the annual award for that year.

Computation of the annual award. The annual award shall be computed on the basis of three indices based on the Bank's performance (hereinafter: "the quantitative indices") and on an additional qualitative index (hereinafter: "the qualitative index").

In the event that the engagement agreement with the Chairman of the Board or with the President & CEO will be terminated during any calendar year, for whatever reason, a proportionate annual award shall be paid for that year until the end of the prior notice period (no entitlement for an annual award, in whole or in part, shall exist in respect of the adaptation period). All deferred award installments shall be paid on that date even if their payment date is not yet due.

Quantitative indices. For each quantitative index, the Board of Directors shall determine at the beginning of the year a target goal according to which minimum and maximum goals will be computed. Attaining the minimum goal in a particular year will entitle the officer to 50% of the maximum annual award relating to that index. To the extent that the goal attained will be higher than the minimum goal so will the percentage of the maximum award increase in accordance with formulas detailed in the plan.

Attainment of the target goal will entitle the officer to 100% of the maximum annual award relating to that index.

Attaining a goal in excess of the target goal and up to the maximum goal will increase the share of the award relating to that index by up to 112.5% of the proportionate share of the maximum annual award relating to that index, provided that the total annual award shall not exceed the maximum annual award.

Proximate to the beginning of each year the Board of Directors shall determine in the work plan target goals for that year. Their manner of measurement shall be identical to the manner in which they are measured in the work plan.

If after the determination of the indices and/or goals in the work plan (hereinafter: "the original goals"), the Bank's Board of Directors shall decide to change the goals in the Bank's work plan, this will not require a change in goals for the purpose of computing the annual award for this year.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Notwithstanding the above, in any year in which goals are changed by the Board of Directors, as stated, due to external circumstances affecting the banking industry in Israel, the Board may decide to reduce or cancel the negative award for that year, if such a negative award applies according to the original goals.

Following are the quantitative indices:

(1) Actual return on risk assets.

(2) Efficiency ratio. This index is computed as the ratio between the total operating and other expenses in a particular calendar year (according to the Bank's financial statements for that year), and the profit from financing operations before credit loss expenses (allowances for doubtful debts) plus all operating and other income in that year (according to the Bank's financial statements for that year).

(3) Operating and other income. This index is computed as the total of operating and other income in a particular calendar year according to the Bank's financial statements for that year.

Qualitative index. At the end of each year, a qualitative evaluation shall be made on the basis of the criteria, the principal items of which are detailed below, and according to a grading of 1 to 3, as follow: "1" - under performance by the qualitative index; "2" - reasonable performance by the qualitative index; "3" - good performance by the qualitative index.

Allotment of grade "1" will deny all (100%) of the annual award; allotment of grade "3" entitles to the full amount of the award which may be granted in respect of the qualitative index. The qualitative index entitles to up to 20% of the maximum annual award. Any grading between "1" and "3" entitles to a proportionate part of the maximum amount which may be granted in respect of the qualitative index to be computed according to a formula determined in the plan.

The qualitative evaluation grading shall be considered as an average of the grades determined by all members of the Bank's Board, marked in a questionnaire to be completed by each of them in accordance with the said grading scale and in accordance with the following criteria, and shall be approved by the Audit Committee and of the Bank's Board of Directors.

The criteria on the basis of which the said qualitative evaluation grading shall be determined, are the contribution made by the Chairman of the Board to supervision and control in areas concerning corporate governance, directives of the Supervisor of Banks (including directives in the matter of "Basel II"), internal audit and audit reports of Regulators (such as the Bank of Israel and the Israel Securities Authority), operational risks and control of risk levels of the Bank's Group; or the contribution made by the President & CEO in respect of the formation of goals and of leadership, advancement and implementation of processes and their realization in the said areas, respectively.

2. Amount of the annual award for 2011. The Chairman of the Board and the former President & CEO were entitled to an annual award in respect of the year 2011, in total amounts of NIS 1,629 million and NIS 1,889 million, respectively. In accordance with the terms of the plan, amounts of NIS 977 million and NIS 1,133 million, respectively, out of the above award sums was paid in 2012, and the balance was divided respectively, into two deferred amounts the payment of which is made in accordance with the "payment spread" mechanism, and is subject to a "negative award" mechanism, all as detailed above. The entitlement to the award is created by attaining all threshold terms. The amount of the award is determined taking into account the extent of reaching the quantitative indices and the qualitative index.

The annual awards to the Chairman of the Board and to the former President & CEO were approved by the Audit Committee on March 21 and 26, 2012. The annual award to the Chairman of the Board in respect of 2011 was approved by the Board of Directors on March 28, 2012, and by the General Meeting of the Shareholders on June 12, 2012. The entitlement to the deferred payments, as above, became effective in the years 2012-2013, in view of compliance with the determined threshold terms.

3. Waiver of the award in respect of 2012. In July 2012, the Bank's Chairman of the Board, the former President & CEO together with the Bank's members of the Management and the Bank's Internal Auditor (see Note 16 J above) informed of their decision (each electively) to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it. This, in continuation and in line with the savings and efficiency measures adopted by the Bank and in consideration of the existing public mood.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

4. **Amount of the annual award for 2013.** The Chairman of the Board and the former President & CEO are entitled to an annual award in respect of the year 2013, in total amounts of approx. NIS 2,160 thousand and NIS 2,888 thousand, respectively (the Board of Directors and the Remuneration Committee have reduced the award to the Chairman of the Board from an amount of NIS 2,552 thousand to NIS 2,160 thousand). The payment to the former President & CEO shall be made in accordance with instructions determined in the plan regarding the termination of his employment agreement (see below). The payment to the Chairman of the Board will be made as follows: An amounts of NIS 1,296 thousand, will be paid in April 2014, subject to approval of the General Meeting of Shareholders, and the balance will be divided respectively, into two deferred amounts the payment of which will be made in accordance with the "payment spread" mechanism, and will be subject to a "negative award" mechanism, all as detailed above. The entitlement to the award is created by attaining all threshold terms. The amount of the award is determined taking into account the extent of reaching the quantitative indices and the qualitative index.

   The annual awards to the Chairman of the Board and to the former President & CEO were approved by the Remuneration Committee on March 4, 2014 and by the Board of Directors on March 13, 2014. The annual award to the Chairman of the Board in respect of 2013 will be brought for approval of the General Meeting of the Shareholders.

H. **Awards to the President & CEO.** As stated, the President & CEO shall, among other things, be entitled to an annual award, a current award and to special awards, as detailed below:

(1) **Annual award.** During the term of her engagement, the President & CEO shall be entitled to an annual award in respect of each award year, which shall be restricted to a maximum amount of NIS 2.2 million, linked to the CPI in respect of December 2013.

Minimum requirements as regards entitlement to the annual award. Entitlement to the annual award in respect of a particular award year is conditional upon the existence together of all the following minimum terms:

- The rate of return on capital in the award year shall not fall below the higher of 7% or the weighted average rate of return on capital in the award year of the four major banks, less 2%;
- The total capital adequacy ratio and the core capital ratio of the Bank, according to the annual financial statements for the award year, shall not fall below the minimum ratios as determined by instructions of the Supervisor of Banks;
- At least a grade "2" marking in the qualitative index for the award year has been granted to the President & CEO, as detailed below.

Computation of the annual award. The annual award is to be computed on the basis of five indices, having identical weight, which are based upon the Bank`s performance (hereinafter: "the quantitative indices") and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors (hereinafter : "the qualitative index"). The Remuneration Committee and the Board of Directors are entitled to decide that with respect to a particular award year, the award shall be based solely on the qualitative indices.

Quantitative indices. For each quantitative index, the Remuneration Committee and the Board of Directors determine at the beginning of the year a targeted goal according to which the minimum and maximum goals will be computed. Attaining the minimum goal in a particular award year would entitle the recipient to 30% of the maximum annual award relating to that index. Attaining a goal which exceeds the minimum goal and up to the targeted goal, would increase that part of the award relating to the index in question, up to 100% of the proportional part of the maximum annual award relating to that index. Attaining a goal that exceeds the targeted goal and up to the maximum goal would increase that part of the award relating to the index in question, up to 110% of the proportionate part of the maximum annual award relating to that index, on condition that the total annual award shall not exceed the maximum annual award.

Following are the quantitative indices:

(1) Return on capital – the actual return on capital in the award year. The targeted goal for this index shall be determined by the Remuneration Committee and the Board of Directors, but not less than 7.5%.

(2) Efficiency ratio – shall be computed in accordance with the manner in which the efficiency ratio is measured and reported in the financial statements for the award year, less special profits or losses.

(3) Commissions and other income – shall be computed on the basis of the total income from commissions and other income, less special profits or losses in the award year, as reflected in the financial statements for the award year.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

(4) Core capital ratio – computed according to the actual core capital in the award year. The minimum goal shall not fall below the minimum ratio determined by instructions of the Supervisor of Banks.

The award plan determined ranges, in term of percentages, for the minimum and maximum goals in relation to the targeted goal.

Qualitative index. At the end of each award year a qualitative evaluation grade will be determined in respect of the functioning of the President & CEO, on a scale of 1 to 3: grade "1" – short performance in the qualitative index; grade "2" - reasonable performance in the qualitative index; grade "3" – good attainment of the qualitative index.

The granting of grade "3" shall entitle the President & CEO to 100% of the weight of the qualitative index in the maximum annual award. The granting of grade "2" shall entitle the President & CEO to 30% of the weight of the qualitative index in the maximum annual award. Any grade between "2" and "3" shall entitle to proportionate part of the maximum amount that may be granted in respect of the qualitative index, computed in accordance with a formula prescribed in the plan.

The qualitative evaluation grade shall be computed as an average of the grades determined by a questionnaire completed by all members of the Board of Directors at the end of the award year, within the framework of which a grade shall be granted to the functioning of the President & CEO in each of the following criteria, on the basis of the above scale.

The criteria on the basis of which the qualitative evaluation grade is to be given are: contribution of the President & CEO to the formation of goals and the leading, advancement and implementation of processes as regards corporate governance, improvement of group management, compliance with instructions of the Supervisor of Banks, internal control, and reports of regulatory authorities (such as the Bank of Israel and the Israeli Securities Authority), management of operating risks and control over the levels of risk of the Bank's Group. Notwithstanding, the Remuneration Committee and the Board of Directors are entitled to determine other criteria from time to time for the determination of the grade of the qualitative evaluation.

(2) **Current award.** The President & CEO shall be entitled to a current award in respect of each award year, in an amount of NIS 900 thousand, linked to the CPI, subject to the entitlement terms, as detailed below.

Entitlement terms to the current award. The entitlement to a current award in respect of a particular award year is conditional upon the existence together of all entitlement terms, as detailed below:

- The core capital adequacy ratio, in accordance with the annual consolidated financial statements, is not lower than the ratio determined in the work plan for the award year.
- The actual efficiency ratio, as computed on the basis of the Bank`s standalone financial statements for the award year, less special profits or losses, is not higher than the efficiency ratio to be determined by the Board of Directors at the beginning of the award year, in accordance with the Bank`s work plan.
- The grade granted to the President & CEO is at least grade "2" of the qualitative index for the award year.

(3) Special awards

(3.1) **Award for special profits or losses.** The Remuneration Committee and the Board of Directors are entitled to grant the President & CEO a special award, either positive or negative, in respect of special profits or losses. This award shall be computed as the difference between the annual award for the award year and the annual award which would have resulted had the special profits or losses not been eliminated in the computation of the quantitative indices, as stated above, with the addition of 20% of the said difference, provided that the resultant amount does not exceed NIS 700 thousand, linked to the CPI. The amount of the negative award is not to exceed the level of entitlement to the annual award.

(3.2) **Special contribution award.** In exceptionally beneficial circumstances regarding an exceptional business event and/or special contribution, which are to be defined in advance by the Board of Directors according to measurable criteria, the Remuneration Committee and the Board of Directors may grant the President & CEO a special award, in an amount not exceeding NIS 700 thousand, linked to the CPI. The award in respect of a special contribution is subject to any approval or disclosure required by law. The award in respect of a special contribution shall not be awarded more than once in every three years.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

(3.3) **Award in special circumstances.** The Remuneration Committee and the Board of Directors may grant the President & CEO an annual award in a monetary amount not exceeding the amount of two monthly salaries, in the event that the minimum conditions for the annual award had not materialized, on condition that the following cumulative terms exist:

- The Remuneration Committee and the Board of Directors have found that in that year, special circumstances had exited in the Bank itself or in the banking industry in Israel or in the macro-economic situation;
- The total capital adequacy ratio and the core capital ratio, in accordance with the annual consolidated financial statement for the award year, were not lower than the minimum ratios determined by the instructions of the Supervisor of Banks.

As stated in item F. above, a maximum level has been set for the total variable remuneration in respect of a particular award year.

I. **Employment agreement of the former President & CEO.** On December 20, 2010, the Audit Committee of the Board and the Board of Directors resolved to approve the Bank's engagement in a personal employment agreement with the Bank's President & CEO, who acted until February 19 2014 (hereinafter: "former President & CEO") (termination of employer/employee relations on March 31, 2014). The period of the agreement was five years beginning on January 1, 2011 (hereinafter: "the agreement period").

The former President & CEO was employed in a full-time position and was not entitled to engage in any other paid occupation, without the prior consent of the Board of Directors. In consideration for executing his duties, the former President & CEO was entitled to a monthly salary of NIS 167,500, which was updated every three months in accordance with the rise in the CPI as compared with the CPI published in December of 2010.

The former President & CEO was entitled to an annual award, as detailed in subsection (h) below. The former President & CEO was also entitled to remuneration of the "phantom" type, derived from the performance of the Bank's shares, as detailed in Note 13 D (1). The agreement stated also the duties that were imposed on the former President & CEO, among which are a "cooling-off" and non-competition periods of six months and a confidentiality duty.

The Bank bared house rental payments for the former President & CEO in an amount of up to NIS 90 thousand, in respect of a rental period that began on the date of his taking office as the Bank's former President & CEO and until August 31, 2011. All taxes pertaining to the said payments, if at all, shall be grossed up and paid by the Bank on his behalf.

The former President & CEO was entitled to paid vacation, sick leave, convalescence pay and a suitable motor vehicle, social benefits (severance pay in accordance with the Law, provident fund, loss of work ability insurance and further education fund) as well as other benefits.

Upon termination of office, the former President & CEO was entitled, according to the agreement, to severance pay under the Law, this in addition to his entitlement to the funds and rights accumulated in his favor in respect of the provisions for pension created by the Bank. In addition, the former President & CEO was entitled to early notice of six months, during which he was entitled to remuneration and related benefits in accordance with the agreement (even if the Bank has decided not to make use of his services in this period or in a part thereof) and to an adaptation period for a period of six months if termination of office is initiated by the former President & CEO. During the adaptation period the former President & CEO was entitled to a monthly salary and related benefits in accordance with the employment agreement, but was not entitled in its respect to any annual award (or to a part thereof).

In the period from January 1, 2011 and until February 28, 2011, the former President & CEO continued to act also as CEO of IDB New York. During this period, the former President & CEO was entitled to 80% of his monthly salary payable by the Bank. This amount was deducted during this period, from the amount of the monthly salary to which he was entitled from IDB New York (accordingly, the gross monthly salary payable to him by IDB New York will be NIS 104 thousand).

J. On May 23, 2006, the Bank (which at a later date transferred its rights to Mercantile Discount Bank) entered into an agreement with a third party, who owns the commercial center in Upper Beitar, for the lease of an area of 250 sq. meters, intended for a new Bank branch. About a month following that date, the said third party sold the commercial center to a company in which Mr. Matthew Bronfman has a 35% equity interest. The monthly rental payments amount to US$20 per sq. meter, linked to the CPI since date of signing, and the lease period was for five years with an option granted to the lessee to extend the lease period by two additional periods of five years each. Management fees are paid according to actual costs. Towards the end of the rental period, the agreement was extended for an additional period of five years. According to the terms of the agreement, the rental fees for the additional period increased by 20%. All other rental terms remained unchanged.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

K. The Bank has a commitment to pay directly to subordinated capital notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated capital notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2013, amounted to NIS 7,339 million (as at December 31, 2012 - NIS 7,482 million).

L. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 19 C 4 and Note 19 C 5.

M. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to VISA Europe and to Mastercard as stated in Note 19 C 10 items a and b.

N. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, including two former officers who acted as Directors of consolidated subsidiaries, which at the relevant dates had been controlling shareholders of the Bank (and at the present time being interested parties therein), see Note 19 C 8, items N and O.

O. Upon granting of the control permit of Discount Bank, Mr. Milstein, one of the Bank's controlling shareholders at that date and until December 3, 2013 (and since then, an interested party in the Bank), has been granted an exemption from the reporting of corporations related to him with regard to Proper Conduct of Banking Business Directive No. 312 - The business of a banking corporation with related parties, subject to certain conditions.

In view of the above, the Supervisor of Banks informed that the Bank is to obtain from Mr. Milstein the following details with respect to corporations related to him, which may be considered as interested parties or related parties of the Bank, also for purposes of the annual public financial reporting:

- A written declaration by Mr. Milstein, to be obtained each year, about one month prior to the publication of the financial statements to the public, according to which:
  - (1) Mr. Milstein, his spouse, his children, their spouses and corporations owned by them and which are interested parties in the Bank or are related parties to the Bank, did not enter into any transaction with the Bank during the period of three years ending on the date of the Report, or alternatively, report the details of all transactions entered into as above;
  - (2) At the end of the reporting year and at the end of the preceding reporting year, neither Mr. Milstein nor his spouse, his children, their spouses and corporations owned by them and which are interested parties in the Bank or are related parties to the Bank had any debts to the Bank or any deposit or other credit balance with the Bank or with a corporation under the Bank's control, or alternatively, report the details of any debt or deposit as above.
- In addition to the above, Mr. Milstein shall immediately report to the Secretary and to the Chief Accountant of the Bank, any transaction or debt as above of himself, his spouse, his children, their spouses and corporations owned by them and which are interested parties in the Bank or are related parties to the Bank.

  For the purpose of this item, interested parties and related parties are as defined in the public reporting instructions.
- The Report issued to the public shall include adequate disclosure of this arrangement.

The Bank received a declaration from Mr. Milstein as required.

P. On July 6, 2008, the Board of Directors, following approval of the Audit Committee, approved the payment of annual remuneration and remuneration for participation in meetings to external directors and to other present and future Directors of the Bank (excluding the Chairman of the Board), in an amount equal to the "maximum amount" stipulated in the Second Addendum and in the Third Addendum to the Companies Regulations (Rules for remuneration and expenses to an external director), 2000, as amended in the Companies Regulations (Amendment) (Rules for remuneration and expenses to an external director), 2008, in accordance with the Bank's grade. The said updated remuneration was paid retroactively as from April 1, 2008, or starting with the date of appointment of a director, the later of the two.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Q. Terms of transactions with interested and related parties

All business with interested and related parties has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

R. For details regarding option plans for members of the Bank's Management, who are part of the managerial key personnel of the Bank, see Note 13(d) (2) and (3). For details regarding a remuneration scheme for members of Management of the Bank, see Note 16(I). For details regarding the remuneration policy for officers of the Bank, see Note 16.

23. INTEREST INCOME AND EXPENSES

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
A. Interest Income[2]						
Credit to the public	5,372	5,937	6,469	3,610	4,066	4,605
Credit to the Governments	41	26	40	38	24	40
Deposits with the Bank of Israel and cash	175	415	512	154	368	455
Deposits with Banks	53	64	85	26	69	69
Securities borrowed or purchased under resale agreements	4	7	6	4	7	5
Bonds[1]	1,143	1,360	1,278	648	741	580
Other assets	34	[4]38	23	14	[4]11	1
Total interest income	**6,822**	**7,847**	**8,413**	**4,494**	**5,286**	**5,755**
B. Interest Expenses[2]						
Deposits from the public	(1,522)	(2,254)	(2,452)	(1,530)	(2,150)	(2,375)
Deposits from the Government	(10)	(11)	(9)	(1)	(2)	(3)
Deposits from banks	(66)	(98)	(123)	(36)	(61)	(84)
Securities loaned or sold under repurchase agreements	(164)	(227)	(243)	-	-	-
Subordinated capital notes	(802)	(789)	(921)	(281)	(274)	(341)
Other liabilities	(8)	[4](9)	(48)	(7)	[4](4)	(28)
Total interest expenses	**(2,572)**	**(3,388)**	**(3,796)**	**(1,855)**	**(2,491)**	**(2,831)**
Interest Income, Net	**4,250**	**4,459**	**4,617**	**2,639**	**2,795**	**2,924**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:						
Interest income[3]	60	(28)	(23)	60	(28)	(22)
D. Accrual basis, interest income from bonds:						
Held-to-maturity	270	260	279	136	116	116
Available for-sale	796	1,019	905	441	554	389
Trading	77	81	94	71	71	75
Total included in interest income	**1,143**	**1,360**	**1,278**	**648**	**741**	**580**

Footnotes:

(1) Financing income generated by mortgage backed securities (MBS) - in US $ millions	41	67	85	-	-	-
Financing income generated by mortgage backed securities (MBS) - in NIS millions	148	258	306	-	-	-

(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 C 5.2.

24. NON-INTEREST FINANCING INCOME

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
A. Non-interest financing income from operations not for trading purposes						
1. From operations in derivative instruments						
Net expenses in respect of ALM derivative instruments(3)	(607)	(367)	(160)	(589)	(361)	(120)
Total from operations in derivative instruments	**(607)**	**(367)**	**(160)**	**(589)**	**(361)**	**(120)**
2. From investments in bonds:						
Gains on sale of held-to-maturity bonds	-	-	3	-	-	-
Gains on sale of available-for-sale bonds	420	336	153	333	215	93
Losses on sale of available-for-sale bonds	(9)	(12)	(11)	-	(2)	(4)
Provision for decline in value of available-for-sale bonds	(21)	(17)	(22)	(3)	-	(14)
Total from investments in bonds	**390**	**307**	**123**	**330**	**213**	**75**
3. Net exchange rate differences	**642**	**265**	**(76)**	**599**	**245**	**(401)**
4. Net profit (losses) from investments in shares:						
Gains on sale of shares available-for-sale	108	75	112	-	6	-
Losses on sale of available-for-sale shares	(8)	-	-	(6)	-	-
Provision for decline in value of available-for-sale shares	(12)	(11)	(20)	-	-	-
Dividends from available-for-sale shares	26	18	6	-	-	-
Profit on sale of shares and activities of affiliated companies	23	-	48	-	-	-
Loss on sale of shares in affiliated companies	-	-	(4)	-	-	-
Total investment in shares	**137**	**82**	**142**	**(6)**	**6**	**-**
5. Net income (loss) on the sale of loans	**30**	**(1)**	**46**	**28**	**-**	**53**
Total non-interest financing income from operations not for trading purposes	**592**	**286**	**75**	**362**	**103**	**(393)**
B. Non-interest financing income from operations for trading purposes(4):						
Net income in respect of other derivative instruments	30	34	4	10	8	2
Net realized and non-realized income on adjustment of trading bonds to fair value(1)	10	34	20	7	27	24
Net realized and non-realized loss on adjustment of trading shares to fair value(2)	(6)-	(2)	(1)	(6)-	(6)-	(1)
Total from trading operations(5)	**40**	**66**	**23**	**17**	**35**	**25**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	22	56	17	7	26	23
Foreign currency exposure	8	-	1	-	-	-
Share exposure	10	10	5	10	9	2
Total according to risk exposure	**40**	**66**	**23**	**17**	**35**	**25**
Total non-interest financing income	**632**	**352**	**98**	**379**	**138**	**(368)**
Footnotes:						
(1) Of which, a part of the income (losses) relating to trading bonds that are still on hand at balance sheet date	(3)	6	(3)	(1)	4	(4)

(2) Of which, a part of the income (losses) relating to trading shares that are still on hand at balance sheet date are lower than NIS 1 million.

(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 23, above.

(6) An amount lower than NIS 1 million.

25. COMMISSIONS

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
Ledger fees	591	(1)605	(1)619	353	369	388
Credit cards	917	924	922	136	90	99
Operations in securities and in certain derivative instruments	305	288	300	191	196	210
Commissions from the distribution of financial products	116	100	102	109	93	88
Management, operational and trusteeship services for institutional bodies	17	(1)21	(1)30	-	-	-
Handling credit	288	311	258	190	213	159
Conversion differences	129	108	113	101	80	85
Foreign trade services	53	55	57	43	45	47
Net income from credit portfolio services	17	18	16	14	15	14
Commissions on financing activities	180	174	181	125	115	117
Other income	91	81	72	50	52	53
Total fees	**2,704**	**2,685**	**2,670**	**1,312**	**1,268**	**1,260**

Footnote:
(1) Reclassified, in this note.

26. OTHER INCOME

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	8	6	5
Profit from severance pay funds	163	178	41	151	162	34
Capital income on sale of buildings and equipment	5	31	35	1	8	-
Capital loss on sale of buildings and equipment	(5)	(4)	-	-	(1)	-
Reversal of provision for decline in value of buildings and equipment	2	3	6	2	3	6
Other income	18	12	87	58	55	125
Total other income	**183**	**220**	**169**	**220**	**233**	**170**

Additional details:

An agreement has been signed in 2011 for the settlement of the claims of the Bank and of a consolidated subsidiary against an insurance company. In this respect, an income of NIS 74 million was recognized in 2011, most of it reflected in the item "Other operating income".

27. SALARIES AND RELATED EXPENSES

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
Salaries	2,410	(3)2,253	2,317	1,547	1,394	1,511
Expense resulting from share based payment transactions(1)	(3)	1	(4)	(3)	1	(4)
Severance pay, pension, further education fund, jubilee awards, vacation, remuneration and retirees benefits	483	(3)561	516	390	396	332
National Insurance and payroll taxes	577	508	469	437	381	353
Other related expenses	130	121	124	43	47	56
Adjustment of reserves for salary-related expenses due to changes in salaries during the year	22	-	22	-	-	-
Voluntary retirement program expenses(2)	-	-	22	-	-	-
Total salaries and related expenses	**3,619**	**3,444**	**3,466**	**2,414**	**2,219**	**2,248**
Of which: overseas salaries and related expenses	383	464	456	14	16	16

Footnotes:

(1) See Note 13 D.

(2) Including payroll tax.

(3) Reclassified, in this note.

28. OTHER EXPENSES

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	In NIS millions					
Advertising	220	220	198	68	63	56
Communications	121	123	125	65	65	62
Computer services	106	(1)123	(1)117	43	(1)53	(1)55
Office expenses	32	32	36	19	18	21
Insurance	50	56	66	6	9	10
Professional services	133	151	166	61	70	78
Directors' fees	14	14	17	6	5	7
Instruction and training	14	15	15	10	12	10
Commissions	157	156	143	29	29	28
Other	305	234	284	140	103	105
Total other expenses	**1,152**	**1,124**	**1,167**	**447**	**427**	**432**

Footnote:

(1) Reclassified, see Note 1 C 5.2.

29. PROVISIONS FOR TAXES ON INCOME

A. Composition

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
Current taxes for current year[2]	501	490	289	235	181	18
Current taxes for previous years	(141)	(69)	(92)	(140)	(69)	(92)
Total current taxes	**360**	**421**	**197**	**95**	**112**	**(74)**
Addition (deduction):						
Deferred taxes for current year	(176)	(104)	(153)	(141)	(75)	(102)
Deferred taxes for previous years	121	90	70	115	84	63
Total deferred taxes[1]	**(55)**	**(14)**	**(83)**	**(26)**	**9**	**(39)**
Total provision for taxes (tax saving) on operating profit	**305**	**407**	**114**	**69**	**121**	**(113)**
Of which: tax provision (tax saving) abroad	74	75	14	4	(16)	(30)

Footnotes:

(1) Deferred taxes:

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
	in NIS millions					
Creation and reversal of temporary differences	5	10	17	19	28	36
Change in the tax rate	(60)	(24)	(100)	(45)	(19)	(75)
Total deferred taxes	**(55)**	**(14)**	**(83)**	**(26)**	**9**	**(39)**
(2) Of which, an amount of benefits deriving from loss for tax purposes, tax credit or a temporary difference from a prior period, not recognized in the past and used to decrease current tax expenses	10	9	14	-	-	3

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

B. Reconciliation between the theoretical tax which would apply had the income been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on operating income as charged in the statement of income:

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Statutory tax rate on banks in Israel	36.22%	35.53%	34.48%	36.22%	35.53%	34.48%
	in NIS millions					
Income tax at the statutory tax rate	424	413	321	129	105	(49)
Tax (tax savings) on:						
Income of foreign subsidiaries	(5)	15	(87)	-	-	-
Income exempt from tax or taxed at preferred rates	(4)	13	5	8	15	8
Depreciation differences, adjustment and capital gains	1	(1)	-	-	-	-
The effect of payroll tax saving in respect of current losses.	-	-	31	-	-	31
Other non-deductible expenses	14	15	29	14	8	21
Losses and timing differences (utilization), net, in respect of which no deferred tax assets were recorded	(10)	(9)	(17)	-	-	(3)
Change in the balance of deferred taxes resulting from the change in tax rates	(72)	(27)	(106)	(57)	(22)	(81)
Taxes for prior years	(32)	9	(37)	(34)	6	(41)
Additional amounts payable with respect to problematic debts	12	12	3	9	9	-
Income of Israeli subsidiaries	(23)	(33)	(28)	-	-	1
Provision for taxes (tax saving) on income	**305**	**407**	**114**	**69**	**121**	**(113)**

C. (1) Final tax assessments have been issued to the Bank for the tax years up to and including 2009. An agreed tax assessment has been issued to the Bank in respect of 2010, with the exclusion of one matter, in respect of which it had been agreed that the Bank would file an appeal. Withholding tax assessments have been issued in agreement between the parties in respect of the years 2008-2009, with the exception of one item, which the Bank contests and in respect of which an appeal has been filed.

(2) Following the settlement of the income tax assessment for the years 2009-2010, excess provisions for tax amounting to NIS 31 million were reversed in 2013. Following the settlement of the income tax assessment for the years 2006-2007, excess provisions for tax amounting to NIS 41 million were reversed in 2011.

(3) The major consolidated subsidiaries have received final tax assessments, or assessments deemed final, for tax years between 2006 to 2009.

D. The consolidated balance as of December 31, 2013, of the carry forward tax losses, deductibles and timing differences amounted to NIS 173 million (December 31, 2012: NIS 203 million).

E. On February 9, 2000, the Bank's shares in IDB New York were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Israeli Income Tax Authorities with a guarantee as to the payment of such taxes.

F. **Deferred tax liabilities not recognized**

As of December 31, 2013, deferred tax liabilities in the amount of NIS 358 million, in respect of temporary differences in the amount of NIS 1,391 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

G. Items in respect of which deferred tax assets were not recognized

Deferred tax assets were not recognized in respect of the following items:

	Consolidated		The Bank	
	December 31			
	2013	2012	2013	2012
	in NIS millions			
Deductible temporary differences	1	1	-	-
Loss for tax purposes	45	50	1	1
	46	**51**	**1**	**1**

H. Balances of deferred taxes receivable and provision for deferred taxes:

1. Consolidated

	Deferred tax receivable				Provision for deferred taxes			
	balance		The average tax rate		balance		The average tax rate	
	2013	2012	2013	2012	2013	2012	2013	2012
	in NIS millions		in %		in NIS millions		in %	
On provision for credit losses	679	704	37.7	35.9	-	-	-	-
On provision for vacation pay, jubilee awards and provision of retirees	489	428	37.6	35.8	-	-	-	-
On excess of provision of severance pay	120	114	37.5	35.5	-	-	-	-
On income tax carry- forward deductions	57	71	26.5	25.0	-	-	-	-
On activity outside of Israel	337	247	36.2	35.5	-	-	-	-
On securities	-	-	-	-	13	4	29.8	37.3
On adjustment of depreciable non-monetary assets	-	-	-	-	178	191	35.3	33.9
On other monetary assets	56	46	34.4	31.8	-	-	-	-
Reserve for tax on income of Investee companies	-	-	-	-	5	74	11.6	34.8
Total, net	**1,738**	**1,610**	**36.8**	**35.0**	**196**	**269**	**33.3**	**34.2**

2. The Bank

	Deferred tax receivable				Provision for deferred taxes			
	balance		The average tax rate		balance		The average tax rate	
	2013	2012	2013	2012	2013	2012	2013	2012
	in NIS millions		in %		in NIS millions		in %	
On provision for credit losses	506	545	37.7	35.9	-	-	-	-
On provision for vacation pay, jubilee awards and provision of retirees	418	368	37.7	35.9	-	-	-	-
On excess of provision of severance pay	73	73	37.7	35.9	-	-	-	-
On income tax carry- forward deductions	57	71	26.5	25.0	-	-	-	-
On securities	-	-	-	-	-	-	-	-
On adjustment of depreciable non-monetary assets	-	-	-	-	153	166	35.7	34.2
On other monetary assets	40	24	37.7	35.9	-	-	-	-
Reserve for tax on income of Investee companies	-	-	-	-	4	74	11.2	34.8
Total, net	**1,094**	**1,081**	**36.9**	**34.9**	**157**	**240**	**34.0**	**34.4**

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

I. Balances of deferred taxes receivable and provision for deferred taxes (continued)

The change in deferred tax assets and tax liabilities is attributed to the following items:

1. Consolidated

	Allowance for credit losses	Interest and securities	Investments in investee companies	Overseas activity	Adjustment of depreciable non-financial assets	Employee benefits	Carry forward deductions for tax purposes	Other	Total
	in NIS millions								
Balance of deferred tax asset (tax liability) as of January 1, 2013	704	(4)	(74)	247	(191)	542	71	46	1,341
Changes recognized in the statement of income	(60)	(18)	82	7	22	40	(17)	9	65
Effect of the change in the tax rate	35	3	-	-	(9)	27	3	1	60
Changes recognized in the equity	-	6	(13)	105	-	-	-	-	98
Financial statements translation adjustments	-	-	-	(13)	-	-	-	-	(13)
Transfer to assets classified as held for sale	-	-	-	(9)	-	-	-	-	(9)
Balance of deferred tax asset (tax liability) as of December 31, 2013(1)(2)	**679**	**(13)**	**(5)**	**337**	**(178)**	**609**	**57**	**56**	**1,542**
(1)Deferred tax asset	679	-	-	337	-	609	57	56	1,738
Balances available for setoff	-	-	-	-	-	-	-	-	(177)
Deferred tax asset as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,561**
(2)Deferred tax liability	-	(2)	(1)	-	(16)	-	-	-	(19)
Deferred tax liability as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**
Balance of deferred tax asset (tax liability) as of January 1, 2012	713	(5)	(61)	287	(200)	511	108	49	1,402
Changes recognized in the statement of income	(25)	47	4	(12)	13	19	(37)	(4)	5
Effect of the change in the tax rate	16	-	-	-	(4)	12	-	1	25
Changes recognized in the equity	-	(46)	(17)	(18)	-	-	-	-	(81)
Financial statements translation adjustments	-	-	-	(10)	-	-	-	-	(10)
Balance of deferred tax asset (tax liability) as of December 31, 2012(1)(2)	**704**	**(4)**	**(74)**	**247**	**(191)**	**542**	**71**	**46**	**1,341**
(1)Deferred tax asset	704	-	-	247	-	542	71	46	1,610
Balances available for setoff	-	-	-	-	-	-	-	-	(255)
Deferred tax asset as of December 31, 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,355**
(2)Deferred tax liability	-	-	-	-	(14)	-	-	-	(14)
Deferred tax liability as of December 31, 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14)**

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

I. Balances of deferred taxes receivable and provision for deferred taxes (continued)

The change in deferred tax assets and tax liabilities is attributed to the following items (continued):

2. The Bank

	Allowance for credit losses	Interest and securities	Investments in investee companies	Adjustment of depreciable non-financial assets	Employee benefits	Carry forward deductions for tax purposes	Other	Total
	in NIS millions							
Balance of deferred tax asset (tax liability) as of January 1, 2013	545	-	(74)	(166)	441	71	24	841
Changes recognized in the statement of income	(66)	-	83	21	28	(17)	15	64
Effect of the change in the tax rate	27	-	-	(8)	22	3	1	45
Changes recognized in the equity	-	-	(13)	-	-	-	-	(13)
Balance of deferred tax asset (tax liability) as of December 31, 2013(1)(2)	**506**	**-**	**(4)**	**(153)**	**491**	**57**	**40**	**937**
(1)Deferred tax asset	506	-	-	-	491	57	40	1,094
Balances available for setoff	-	-	-	-	-	-	-	(141)
Deferred tax asset as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**953**
(2)Deferred tax liability	-	-	-	(16)	-	-	-	(16)
Deferred tax liability as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16)**
Balance of deferred tax asset (tax liability) as of January 1, 2012	554	(2)	(61)	(176)	415	108	23	861
Changes recognized in the statement of income	(22)	-	4	14	17	(37)	1	(23)
Effect of the change in the tax rate	13	-	-	(4)	9	-	-	18
Changes recognized in the equity	-	2	(17)	-	-	-	-	(15)
Balance of deferred tax asset (tax liability) as of December 31, 2012(1)(2)	**545**	**-**	**(74)**	**(166)**	**441**	**71**	**24**	**841**
(1)Deferred tax asset	545	-	-	-	441	71	24	1,081
Balances available for setoff	-	-	-	-	-	-	-	(226)
Deferred tax asset as of December 31, 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**855**
(2)Deferred tax liability	-	-	-	(14)	-	-	-	(14)
Deferred tax liability as of December 31, 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14)**

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

J. **Tax legislation changes**

2011. On July 14, 2009, the Knesset passed the Economic Efficiency Act (Legislation amendments for the implementation of the economic program for the years 2009 and 2010), 2009, which stipulated, among other things, an additional gradual reduction in the corporate tax rates down to 18% as from the 2016 tax year and thereafter. Following the said amendment, the statutory tax rate applying to banking corporations stood at 34.48% in 2011.

On December 5, 2011, the Knesset passed the Tax Burden Amendment Act (Legislation Amendments), 2011, which implements the Chapter on taxation in the Trachtenberg Committee report. According to the Act, the reduction in tax rates that was determined in the Economic Efficiency Act, as discussed above, was cancelled, and as from the year 2012 and thereafter the company tax is at the rate of 25%.

Current taxes for the years 2010-2011 were computed according to the tax rates as determined in the Economic Efficiency Act. The balances of deferred taxes as of December 31, 2011 were computed in accordance with the new tax rate as determined in the Tax Burden Amendment Act, based on the tax rate that was anticipated on the reversal dates. The effect of the change in the tax rate on the financial statements as of December 31, 2011, was reflected in the increase in the deferred tax balances (compared to the tax situation without these legislation changes) in the amount of NIS 164 million and with an increase of the same amount in net income for the period.

2012. The Deficit Reduction and Change in Tax Burden (Legislation amendments) Act, 2012, (hereinafter: "the Act") was published on August 13, 2012. The Act includes several changes in taxation, including an increase in the rate of National Insurance contributions payable by employers. Starting with January 2013, the rate of National Insurance contributions payable by employers in respect of that part of the salary in excess of 60% of the average market wage, increased from a rate of 5.9% at that date, to a rate of 6.5%. In January 2014 the said rate increased to 7% and in January 2015, this rate will increase to 7.5%.

A Value Added Tax Order was published on August 2, 2012, which updates the VAT rate applying to transactions and the import of goods, fixing it at 17% with effect from September 1, 2012.

A Value Added Tax Order (Tax rate applying to non-profit organizations and financial institutions) (Amendment), 2012, was published in the Official Gazette on August 30, 2012, according to which the rate of payroll tax and profit tax increased as from September 1, 2012, to 17%.

As a result of the said amendment, the statutory tax rate applying to financial institutions increased in 2012, to 35.53%, and as from the year 2013 and thereafter, the rate will increase to 35.9%. Furthermore, the rate of payroll tax applying to financial institutions increased to 17% in respect of the payroll due for work in the month of September 2012 and thereafter, instead of a rate of 16% for 2012 and 15.5% for 2013 and thereafter.

An increase in the balance of deferred tax assets was recorded in the financial statements, and as a result, an income of NIS 25 million was recorded in 2012.

Concurrently, current tax payments (payroll tax and profit tax) as well as the National Insurance contributions of the Bank and its subsidiaries in Israel and the rest of the Bank's expenses increased, due to the increase in the rate of VAT.

2013. 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 rose from 35.89% to 36.22%. From the beginning of 2014, the statutory tax rate will rise to 37.71%.

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

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).

K. **Merger between the Bank and Discount Mortgage Bank Ltd. ("DMB")**

Future tax implications of the merger. Following the merger, the Bank would be subject to certain restrictions for a period of two years, beginning with the end of the tax year in which the merger had been effected ("the required period"), the principal of which are as follows:

- During the required period, a controlling shareholder may sell up to 10% of the Bank's shares held by him at date of the merger, it may be possible to effect a private offering of the Bank's shares to a third party of up to 20% of the share capital following the allotment, and it may also be possible to perform a public offering on condition that during the required period, the rights pertaining to the Bank's controlling shareholder shall not fall below 51% of any of the rights in the Bank.
- The majority of the fixed assets (over 50%) held by the Bank and by DMB shall not be sold during the required period (excluding a forced sale), and they should be used in the Bank's ordinary course of business.

It should be noted that non-compliance with the restrictions imposed on the Bank and/or on its controlling shareholder and/or the non-compliance with the terms of the ruling of the Income Tax Authorities, may result in the merger process becoming a tax event, namely in the cancellation of the tax benefits granted in advance, so that the merging companies will be subject to the taxes and levies from which they had been exempted with the addition of interest and linkage increments from date of the merger. It should be noted that the above terms are stated in the Ordinance, and that changes might be made to such terms in accordance with a preliminary guideline that will be issued, if at all.

Decision of the Income Tax Authority. On May 10, 2012, the Income Tax Authorities signed on the decision ("the tax decision") in the matter of the merger of DMB into the Bank – a merger under Section 103b of the Ordinance (namely, an exempt merger), according to which, subject to the fulfillment of the terms detailed in the Ordinance and of the tax decision, that the details of the merger plan, as presented in the application submitted to the Tax Authorities, are in compliance with the terms of Sections 103 c (1) and (7) of the Ordinance, and that the merger shall become effective on December 31, 2011.

Following are the terms of the merger decision:

- To remove doubt, the merger decision clarified that no new rights in the Bank shall be allotted to its shareholders in respect of the merger. Accordingly, upon the sale of the Bank's shares, the cost of investment in shares of DMB shall not be added to the original cost of the Bank shares.

  Furthermore, the provisions of Section 103 e of the Ordinance will apply to assets transferred to the Bank, and no additional amounts will be attributed to them in excess of their original price as stated in the books of DMB.
- To remove doubt, it was further clarified that amounts expended in acquiring the rights in DMB, including rights acquired through the purchase offer of 2007 (within the framework of which the Bank had acquired the DMB shares then held by the public), shall not be entitled to deduction and/or setoff, and shall not be recognized as an asset tax wise, shall not be allowed as an additional original cost and no deduction whatsoever will be allowed in their respect.
- It is agreed that any expense or deduction accumulated at DMB and/or at the Bank until date of the merger and not allowed tax wise until that date (hereinafter: "the expenses"), and had these been allowed, a tax loss would have been created at merger date, such expenses will be recognized as part of the loss of DMB and/or the Bank, as the case may be, until date of the merger, and the provisions of Section 103 h of the Ordinance shall apply to them, all this if allowed as a deduction tax wise within a period of two years since date of the merger.

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

For this purpose, an "expense or deduction accumulated" – any provision, except for impaired debts as determined in the agreement stating the principles for impaired debts, dated February 14, 2012.

The decision clarifies that the above stated does not derogate from the provisions of Section 103 h of the Ordinance. It is also clarified that the tax decision does not serve as an approval for the deduction tax wise of the said expenses, a matter that would be studied by the Tax Assessing Officer.

- If it transpires that any of the terms determined in Section 103 c of the Ordinance is not fulfilled on its due date, the Bank and DMB will be charged with taxes and obligatory payments from which they had been exempted, together with interest and linkage increments from date of the merger to date of payment, all in accordance with the provisions of Section 103 j of the Ordinance. In such a case, immediately proximate to the date of the violation, an expert valuation of DMB as of date of the merger, will be submitted to the Tax Assessing Officer, in accordance with the Income Tax Regulations (Application for an advance approval of a merger plan), 1993. The said valuation required the approval and consent of the Assessing Officer.
- The Bank is committed to inform the Director of Property Taxes as to the issue of the said tax decision, which, among other things, includes the transfer of the real estate property owned by DMB (at 16/18 Beit Hashoava Lane, Tel Aviv) and pay acquisition tax of 0.5%, within 40 days of the date of the tax decision. To avoid doubt, the tax decision clarifies that the acquisition date will be November 23, 2011 (date of change in the organizational structure) (a notice, as stated, has been duly delivered).
- A valuation of the property shall be submitted to the property tax department of the professional division within 30 days from the date of the tax decision (a valuation, as stated, has been duly delivered).
- The Bank is committed to submit to the Director of Property Taxes, within 30 days from the end of two years from November 23, 2011 (date of change in the organizational structure), a confirmation stating that it had fulfilled all provisions of part II of the Ordinance and of the tax decision (the Bank filed a confirmation as stated).
- It has been agreed that surplus expenses in the hands of the Bank prior to the merger, shall be entitled for setoff against income tax or land betterment tax due by the Bank (subsequent to the merger) in equal installments over a period of five years from date of the merger (20% annually).
- The tax decision was granted subject to the fulfillment in full of all other terms stated in the Ordinance and in the tax decision, including terms relating to the required period, as defined in Section 103 of the Ordinance, beginning with the date of the merger.

With respect to the transfer of staff –

- The tax decision approved the transfer of the staff in accordance with the provisions of Section 103 p of the Ordinance.
- Also approved was the transfer of ownership in all provident funds transferred in the names of employees transferred from DMB to the Bank, and that the transfer of funds deposited in the said provident funds will be exempt from withholding tax at source in accordance with Section 2 (a)(6) of the Income Tax Regulations (Tax exemption in respect of a transfer and change of designation of funds deposited with provident funds), 1990.
- The transferred employees will be entitled to continuity of their rights for severance benefits, as stated in Section 103 p of the Ordinance, and upon their retirement from the Bank, the period of their employment with DMB and the Bank will be taken into account in computing the tax exemption on severance benefits.
- It has been agreed that where an employee had retired prior to the date of merger or due to the merger, and had received from DMB a tax exempt retirement benefit in accordance with Section 9(7a) of the Ordinance, and within six months from date of retirement has renewed his employment with the Bank, the said retirement benefit that had been received by him will be deemed a salary and the Bank will withhold the required tax from this amount.
- It has been agreed that any payment made to the employees of the banks involved in the change in the organizational structure as a result of such change by the merged banks, will be deemed employment income and tax will be withheld there from in accordance with the Income Tax Regulations (Withholding tax from salaries and wages and payment of employer tax), 1993.

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

General terms:

- The Bank and DMB have committed to include in their financial statements and in the tax adjustment statements, a note describing the changes created by the merger including the terms of the tax decision, starting with the first statements submitted after the date of the tax decision.
- The tax decision clarified that it should not be deemed to be a tax assessment and/or confirmation of the facts presented to the Tax Authorities. The facts presented as above might be examined by the Tax Assessing Officer.
- The tax decision clarified that it had been issued on the basis of presentations and documents provided to the Tax Authorities, in writing or orally, including those detailed in the tax decision, and subject to the terms specified in Part II of the Ordinance.

  The tax decision will be retroactively cancelled if it transpires that the details and facts presented as part of the application are incorrect or are materially incomplete, or if it transpires that material items presented have not materialized or that the terms specified by the Director in this tax decision have not been fulfilled.
- The tax decision clarifies that any expense involved, directly or indirectly, in this change in the organizational structure, including legal, accounting, experts, consulting expenses and any levies, may not be allowed, whether directly or indirectly, the parties to the change in status detailed in the tax decision, and/or to parties related to them, as a deduction tax wise or as an expense under Section 17 of the Ordinance.
- The Bank and DMB are obliged, jointly and separately, to confirm in writing to the mergers and splits department of the Tax Authority and to the Tax Assessing Officer, within thirty days from date of the tax decision, that they agree to accept all the terms of the tax decision as stated, without any qualification. If the said confirmations are not received by the due date, the tax decision will be retroactively withdrawn (approvals, as stated, have been duly delivered).

L. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Israeli Tax Authorities, the earnings of the foreign banking subsidiaries are added to the Bank's chargeable income, so that the Bank complements the taxes paid abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of taxes that would have been paid in Israel based on the tax rate applicable to the Bank in Israel.

M. For details regarding taxes on income recognized in other comprehensive income, see Note 33B, below.

30. LEGISLATION INITIATIVES

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION

A. GENERAL

In December 2001, the Supervisor of Banks in Israel issued directives concerning segment information reporting in a banking corporation, which determine, among other things, the disclosure requirements and the manner of presenting the financial results of segments in the financial statements.

In July 2005, the Supervisor of Banks published a "Questions and Answers" file about the disclosure of segment information. The said file stated, among other things, that the segments requiring disclosure in the Note are: Households, Private Banking, Small Businesses, Middle Market Banking, Corporate Banking, Financial Management and Other (if relevant, on a specific basis in the reporting banking corporation). The segments relating to banking products (credit cards, capital market activity, mortgage loans and construction and real estate) are to be presented in the relevant customer segments. Notwithstanding, it is required to include in the Directors' Report, in respect of each segment in a separate column, a disclosure as to the banking product. The said file also clarified that the data for the international operations segment is to be presented similarly to the segment data presentation of the operations of the Group in Israel.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

The operations of the Group are divided into six principal segments, as detailed hereunder. The segments also include, as aforementioned, the relevant part relating to banking products (credit cards, capital market activity, mortgage loans and construction and real estate).

It should be noted that these segments of operation do not accord with the organizational structure, mainly due to the fact that certain operations are reflected in the various segments, such as credit card activities and the capital market activity, and not within the organizational framework in which they are being operated.

- **Retail Banking - Household Segment:** within the framework of this segment are customers of the Bank's and Mercantile Discount Bank's ("MDB") Banking Division who are private customers who are defined as customers who are either salaried employees, possess the potential for growth, or may be viewed as VIP customers (the definition excludes customers of the private banking centers). The segment also includes the customers of MDB in that Bank's household segment - private customers of MDB, whose activities are typical of those households, including credit of volume not exceeding NIS 300 thousand and deposits of a volume not exceeding NIS 500 thousand.
- **Retail Banking -Small Business Segment:** within the framework of this segment customers of the Bank's Banking Division and customers of MDB which are defined as small companies and small businesses with annual turnovers of up to NIS 15 million and with borrowings of up to NIS 5 million.
- **Corporate Banking:** Within the framework of this segment including customers of the Bank`s corporate division mainly corporations with annual turnovers of over NIS 150 million or indebtedness exceeding NIS 50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's corporate banking segment.
- **Middle Market banking:** Within the framework of this segment including customers of the middle market department at the Bank`s banking division mainly corporations with annual turnovers of NIS 15-150 million and with indebtedness of NIS 5 to 50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's commercial banking segment.
- **Private banking:** This segment includes as part of the Bank's customers (individuals and corporations) who receive banking services at the private banking centers. These customers are generally Israeli customers with financial wealth held with the Bank of NIS 4 million and over, and to foreign resident customers with financial wealth held at the Bank of US$1 million and above. The segment also includes customers of MDB and the London branch of medium and high wealth, all the activity of the subsidiary IDB (Swiss) Bank and the private banking customer activity at IDB New York, including all the operations of the subsidiary Discount Bank Latin America.
- **Financial Management Segment:** This segment includes activities that are characterized as banking operations, but do not involve customers of the Group (except for activity with the dealing room and banking corporations). These activities are mainly comprised of the nostro operations of the Bank, MDB and IDB New York involving securities and other banks for their own account, as well as management of market and liquidity risks and dealing room operations, including those involving financial derivatives. This segment also includes the Bank's share in the income of FIBI (until March 31, 2014) and its share in the income of its affiliated companies which operate in a supporting capacity. The segment also includes the sub-segment of non-financial corporations, which includes the Group's investment in non-financial corporations, mainly investments made by DCMI, as well as direct investments by the Bank.

B. THE PRINCIPAL ASSUMPTIONS, ESTIMATES AND PRINCIPLES USED IN THE PREPARATION OF SEGMENT INFORMATION

The classification of the business results of the Group into the various segments of activity, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. Income

Income from financing operations before credit loss expenses. The segment is credited with the margin resulting from the difference between interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks.

According to this methodology, earning or losses from financing operations resulting from changes in market conditions, are taken to the "Financial Management" segment.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the "Financial Management" segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected.

Operational income. The operational and other income, which the bank collects from customers, are reflected directly in the segment in which the activity of the customer is reflected. Some of the income derived from foreign currency operations with customers is credited to the dealing room.

2. Expenses

Identifiable direct expenses are specifically and directly reflected in the related segments.

Overhead expenses (mainly head office expenses), which cannot be related to a specific segment, are charged to the segments using an estimate based on various charging formulas, most of them based on volume of operation indices and some of them based on estimates and assessments of the Bank's various units. (For details see paragraph 4 hereunder).

Depreciation and amortization expenses are charged as part of the overhead expenses.

The model for the charging of expenses used in calculating the data includes the allocation of inter segment expenses, mainly in relation to operational services provided by the branch setup to customers related to other segments by charging all the branches' expenses to customers of these branches, even if these customers are not amongst the customers of the Banking Division. As stated above, this charge is made by way of an estimate based mainly upon indices for the volume of operations of customers of the Bank's branches.

Taxes on income. In order to exclude the effect of brought forwards tax losses in respect of which deferred tax assets had not been recorded, on the measurement of the profitability according to segments of operation, the following tax computation was made:

The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 36.22% (2012: 35.53%).

Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the net taxes attributed to the segments of operation and the provision for taxes recorded in the income statement, is charged to the "Financial Management" segment.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated in accordance with the principles of Basel II (until December 31, 2009 - according to the principles of Basel I).

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment. Since 2011, the allocation of capital increased to 7.5%, and starting with the year 2013 8.0%, in accordance with the targets determined by the Bank's Board of Directors.

4. Presentation of inter-segment income and expenses

The accountability between the profit centers in the Bank is made by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). The method for the allocation expenses used by the Bank is a multi-stage one. In the first stage the direct expenses of the branch are allocated to all the customers keeping their accounts at the branch, (customers attached to various segments). In the second stage, the expenses of designated units are allocated based on an estimate of the distribution of the service to the various head offices, and the total expenses of the head offices and administrations to the customers whom they serve. Finally, the costs of the general head office units (management, human resources, comptroller, operations and computer services, etc.) to all the customers of the Bank.

According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

C. Business segments activity in Discount Bank

	For the year ended December 31, 2013							
						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	1,105	746	1,330	734	(42)	2	375	4,250
- Intersegmental	163	(3)	(347)	(184)	362	-	9	-
Total Interest income, net	1,268	743	983	550	320	2	384	4,250
Non-interest financing income	15	3	74	15	17	113	395	632
Commissions and Other income	1,520	482	418	190	246	2	29	2,887
Total income	**2,803**	**1,228**	**1,475**	**755**	**583**	**117**	**808**	**7,769**
Credit loss expenses	48	94	322	123	4	-	(11)	580
Operating and other expenses	2,764	815	720	388	548	7	776	6,018
Profit (loss) before taxes	(9)	319	433	244	31	110	43	1,171
Provision for taxes (tax savings) on income	(7)	111	150	73	44	8	(74)	305
Profit (loss) after taxes	**(2)**	**208**	**283**	**171**	**(13)**	**102**	**117**	**866**
Bank's share in operating income of affiliated companies	7	-	-	-	-	(6)	44	45
Net income from ordinary operations Attributed to the non-controlling rights holders	(25)	(6)	(5)	(1)	-	-	-	(37)
Net Profit (loss) Attributed to the bank's shareholders	**(20)**	**202**	**278**	**170**	**(13)**	**96**	**161**	**874**
Return on equity (percentage)	**(0.9)**	**21.4**	**6.7**	**9.7**	**(3.0)**	**80.1**	**6.6**	**7.3**
Average Assets	37,263	12,405	41,711	19,031	4,148	1,027	83,582	199,167
Of which -Investment in Investee companies	46	-	-	-	-	47	1,660	1,753
Average Liabilities	68,661	16,961	23,265	10,118	33,150	756	34,186	187,097
Average Risk-assets	27,500	11,801	51,903	21,887	5,374	1,507	13,077	133,049
Average assets of provident and mutual funds	-	-	-	-	-	-	2,081	2,081
Average customers' securities	38,167	8,463	104,607	8,896	27,431	-	-	187,564
Average other assets under management	4,395	407	574	1,172	527	-	-	7,075
Margin from credit activity	823	643	901	479	66	-	-	-
Margin from deposits activity	445	100	82	71	254	-	-	-
Total Interest income, net	**1,268**	**743**	**983**	**550**	**320**	**2**	**384**	**4,250**

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

C. Business segments activity in Discount Bank (continued)

	For the year ended December 31, 2012							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking[1]	Private Banking[1]	Non-Financial Companies	Financial Management	Total Consolidated
	in NIS millions							
Interest income, net								
- From external sources	237	751	1,453	775	(30)	2	1,271	4,459
- Intersegmental	1,205	26	(421)	(169)	413	-	(1,054)	-
Total Interest income, net	1,442	777	1,032	606	383	2	217	4,459
Non-interest financing income	27	6	50	14	11	61	183	352
Commissions and Other income	1,497	492	442	185	230	2	57	2,905
Total income	**2,966**	**1,275**	**1,524**	**805**	**624**	**65**	**457**	**7,716**
Credit loss expenses	19	98	467	127	10	-	5	726
Operating and other expenses	2,600	777	675	416	574	7	777	5,826
Profit (loss) before taxes	347	400	382	262	40	58	(325)	1,164
Provision for taxes (tax savings) on income	88	128	127	86	17	7	(46)	407
Profit (loss) after taxes	**259**	**272**	**255**	**176**	**23**	**51**	**(279)**	**757**
Bank's share in operating income of affiliated companies	3	-	-	-	-	1	100	104
Net income from ordinary operations Attributed to the non-controlling rights holders	(38)	(9)	(10)	(2)	-	-	-	(59)
Net Profit (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[1]	37,270	12,372	[3]46,812	[3]20,049	[3]3,995	824	[2][3]81,879	203,201
Of which - Investment in Investee companies	10	(2)	-	-	-	29	1,570	1,607
Average Liabilities	68,692	16,085	27,371	9,458	35,473	729	[1][2]33,912	191,720
Average Risk-assets	28,032	11,852	55,535	22,703	5,179	1,271	14,593	139,165
Average assets of provident and mutual funds	-	-	-	-	-	-	1,977	1,977
Average customers' securities	34,065	7,088	90,785	8,678	25,251	-	-	165,867
Average other assets under management	4,259	344	590	2,040	310	-	-	7,543
Margin from credit activity	814	643	950	527	89	-	-	-
Margin from deposits activity	628	134	82	79	294	-	-	-
Total Interest income, net	**1,442**	**777**	**1,032**	**606**	**383**	**2**	**217**	**4,459**

Footnotes:

(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.

(2) 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".

(3) Reclassified - Improving the allocation of certain items, which were reclassified to the "Financial management" segment.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

C. Business segments activity in Discount Bank (continued)

	For the year ended December 31, 2011							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking(3)	Private Banking(3)	Non-Financial Companies	Financial Management	Total Consolidated
	in NIS millions							
Interest income, net								
- From external sources	(757)	644	2,010	886	(570)	6	2,398	4,617
- Intersegmental	2,284	143	(1,077)	(212)	905	-	(2,043)	-
Total Interest income, net	1,527	787	933	674	335	6	355	4,617
Non-interest financing income	47	13	56	11	11	76	(116)	98
Commissions and Other income	1,497	451	414	216	256	(3)	8	2,839
Total income	**3,071**	**1,251**	**1,403**	**901**	**602**	**79**	**247**	**7,554**
Credit loss expenses	148	109	287	161	37	-	36	778
Operating and other expenses	2,541	875	574	511	569	6	769	5,845
Profit (loss) before taxes	382	267	542	229	(4)	73	(558)	931
Provision for taxes (tax savings) on income	113	87	180	75	1	6	(348)	114
Profit (loss) after taxes	**269**	**180**	**362**	**154**	**(5)**	**67**	**(210)**	**817**
Bank's share in operating income (loss) of affiliated companies	3	-	-	-	-	-	98	101
Net income from ordinary operations Attributed to the non-controlling rights holders	(53)	(6)	(9)	(3)	-	-	-	(71)
Net Profit (loss) Attributed to the bank's shareholders	**219**	**174**	**353**	**151**	**(5)**	**67**	**(112)**	**847**
Return on equity (percentage)	**9.0**	**16.5**	**9.9**	**8.7**	**(1.4)**	**77.3**	**(10.3)**	**8.2**
Average Assets(3)	36,854	13,235	(2)43,241	(2)19,344	(2)6,430	718	(1)(2)72,126	191,948
Of which - Investment in Investee companies	10	(2)	-	-	-	28	1,509	1,545
Average Liabilities	64,177	14,284	25,405	10,179	33,330	721	(1)(3)33,056	181,152
Average Risk-assets(3)	32,261	14,007	47,612	23,236	5,257	1,156	16,460	139,989
Average assets of provident and mutual funds	-	-	-	-	-	-	2,295	2,295
Average customers' securities	34,324	8,574	86,188	11,889	23,834	-	-	164,809
Average other assets under management	3,690	364	412	1,248	2,249	-	-	7,963
Margin from credit activity	848	645	860	585	95	-	-	-
Margin from deposits activity	679	142	73	89	240	-	-	-
Total Interest income, net	**1,527**	**787**	**933**	**674**	**335**	**6**	**355**	**4,617**

Footnotes:

(1) 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".

(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 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.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

D. Information on geographical areas

	Income[1]			Net Income			Assets	
	For the year end December 31						As at December 31	
	2013	2012	2011	2013	2012	2011	2013	2012
	in NIS millions							
Israel	6,814	6,638	6,564	720	[2]733	935	161,836	159,556
Europe	120	126	101	7	(52)	(194)	5,260	4,238
North America	675	773	728	176	[2]106	84	29,205	33,055
South America	160	179	161	(29)	[2]15	22	4,206	4,163
Total Overseas	**955**	**1,078**	**990**	**154**	**69**	**(88)**	**38,671**	**41,456**
Total Consolidated	**7,769**	**7,716**	**7,554**	**874**	**802**	**847**	**200,507**	**201,012**

Notes:

(1) Income – Interest income, net, before credit loss expenses and non-interest income.

(2) Reclassified - Classification of balances between different countries, following the improvement in the data of a consolidated subsidiary.

32. EARNMARKED DEPOSITS, CREDIT AND DEPOSITS FROM EARNMARKED DEPOSITS

	Consolidated		The Bank	
	December 31		December 31	
	2013	2012	2013	2012
	in NIS millions			
Credit and deposits from earmarked deposits				
Credit granted to the public	175	177	175	177
Total	**175**	**177**	**175**	**177**
Earmarked deposits				
Deposits from the public	2	2	2	2
Deposits from the Government	176	178	176	178
Total	**178**	**180**	**178**	**180**

33. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A. Changes in other comprehensive income (loss)

	Other comprehensive income (loss), before attribution to non-controlling rights holders				Other comprehensive income (loss) attributed to non-controlling rights holders	Other comprehensive income (loss) attributed to the Bank's shareholders
	Net adjustments for presentation of available- for- sale securities at fair value	Financial statements translation adjustments, net after hedge effects[1]	Net income (loss) in respect of cash flows hedge	Total		
	in NIS millions					
Balance at December 31, 2010	139	(5)	-	134	2	132
Net change during the year	(137)	1	(8)	(144)	(2)	(142)
Balance at December 31, 2011	**2**	**(4)**	**(8)**	**(10)**	**-**	**(10)**
Net change during the year	413	(77)	(2)	334	-	334
Balance at December 31, 2012	**415**	**(81)**	**(10)**	**324**	**-**	**324**
Net change during the year	(236)	(224)	4	(456)	-	(456)
Balance at December 31, 2013	**179**	**(305)**	**(6)**	**(132)**	**-**	**(132)**

Footnote:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

33. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

B. Changes in other comprehensive income (loss)

	2013			2012			2011		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of other comprehensive income (loss), before attribution to non-controlling rights holders:									
Adjustments for presentation of available-for- sale securities at fair value									
Net unrealized income (loss) from adjustments to fair value	27	10	37	1,040	(391)	649	(92)	41	(51)
(Income) loss on available for sale securities reclassified to the statement of income	(434)	161	(273)	(367)	131	(236)	(139)	53	(86)
Net change during the year	**(407)**	**171**	**(236)**	**673**	**(260)**	**413**	**(231)**	**94**	**(137)**
Translation adjustments									
Financial statements translation adjustments[1]	(227)	-	(227)	(76)	-	(76)	1	-	1
Hedge	4	(1)	3	(1)	-	(1)	-	-	-
Net change during the year	**(223)**	**(1)**	**(224)**	**(77)**	**-**	**(77)**	**1**	**-**	**1**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	1	-	1	(10)	4	(6)	(15)	7	(8)
Net (income) loss in respect of cash flow hedging reclassified to the statement of income	6	(3)	3	7	(3)	4	-	-	-
Net change during the year	**7**	**(3)**	**4**	**(3)**	**1**	**(2)**	**(15)**	**7**	**(8)**
Total net changes during the year	**(623)**	**167**	**(456)**	**593**	**(259)**	**334**	**(245)**	**101**	**(144)**
Changes in components of other comprehensive income (loss) attributed to non-controlling rights holders:									
Total net changes during the year	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**1**	**(2)**
Changes in components of other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net changes during the year	**(623)**	**167**	**(456)**	**593**	**(259)**	**334**	**(242)**	**100**	**(142)**

Footnote:
(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

34. CREDIT CARD ACTIVITY

A. Holding means of control in Diners

The establishment of the YOU customer club and the sale of the means of control in Diners. Pursuant to an agreement dated November 29, 2005, ICC sold to Dor-Alon Energy in Israel (1988) Ltd. and Blue Square Israel Ltd. (hereinafter together - "the Purchasers") shares comprising 49% of the issued and paid share capital of Diners Club Israel Ltd. (hereinafter - "Diners"). Concurrently, Diners entered into an agreement with the Purchasers for the establishment of a customer club. The transaction was consummated on December 18, 2006.

Within the framework of an effort for the strengthening of the cooperation and intensifying the penetration of YOU Club into the market, addendum to the set of agreements between ICC and Blue Square Israel Ltd., MEGA Retail Ltd., Dor Allon Energy (1988) Ltd., Dor Allon Finance Ltd. and the Blue Square-Dor Allon Consumer Club (hereinafter: "the Allon Group"), in the matter of the continued joint ownership of Diners was signed on August 31, 2011. According to the Addendum, the existing agreement in the matter of the joint activity in Diners was changed and the YOU Club agreement was extended until the end of 2015. The Addendum outlines a new distribution method for the earnings of Diners so that it will not be subject to attaining a quantitative target for the operations of YOU Club. The Addendum to the agreement also grants the Allon Group the right to realize their investment in Diners as from December 31, 2015, at the value specified in the agreement (PUT option).

34. CREDIT CARD ACTIVITY (CONTINUED)

B. Arrangements between the credit card companies and between such companies and the banks

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Antitrust Tribunal (hereinafter: "the Tribunal") for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Antitrust Commissioner ("the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Antitrust Tribunal. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement – reduction of the issuer commission rate. On December 28, 2011, the Commissioner and the Appellants submitted for approval of the Tribunal a motion requesting a status of a Court verdict for a compromise agreement between them, to which had been attached an amended cross clearing arrangement(hereinafter: "status request" and "the amended arrangement", respectively).The compromise agreement determines, among other things, as follows:

   - The Commissioner informs that in view of the exogenous changes that have occurred since the submission to the Tribunal of the complementary opinion, and following his examination of the arguments detailed in the complementary opinion, he is of the opinion that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement;
   - 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 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.

   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.

2. **"IsraCard" credit cards clearing arrangement.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel. In accordance with the license, ICC would be entitled to clear transactions made at trading houses in Israel by means of IsraCard credit cards, using the cross-clearing interface, and for this purpose, engage with trading houses in Israel for the supply of clearing services, and to supply services related to the clearing of transactions made through the cards (card services). The agreement will be in force from May 15, 2012 and until May 15, 2017. In consideration for the license, ICC is committed to pay a one-off license fee plus an annual fee computed in accordance with a mechanism determined in the agreement (as a function of the clearing turnover).

34. CREDIT CARD ACTIVITY (CONTINUED)

Concurrently, the parties signed a cross-clearing agreement with respect to transactions to be effected by IsraCard credit cards, according to which the said clearing will be effected using the joint interface under the terms of the agreement relating to the clearing of transactions made by the VISA and MaterCard credit cards (as they apply from time to time) (hereinafter: "the Arrangement").

The cross-clearing agreement entered into effect upon its approval in accordance with the Antitrust Act, and shall expire on date of expiry of the license or on date of expiry of the Arrangement, whichever is earlier.

On September 13, 2012, the Antitrust Commissioner granted an exemption, for a period of three years, in respect of the arrangement between the company and IsraCard Ltd. as well as to the arrangement between LeumiCard Ltd. and IsraCardLtd., under the terms stated in the Commissioner's decision, including:

- IsraCard will not collect from the company and from LeumiCard any additional payment in excess of the issuer commission, a one-time license fee and an additional payment being a percentage of the turnover of clearing "IsraCard" transactions, as determined in the exemption;
- The cross-clearing commission rates ("issuer commission") payable by the clearing agent of the IsraCard brand to the Issuer of this brand, shall not exceed the rates specified in the cross-clearing arrangement approved on March 7, 2012, in a rulling of the Antitrust Tribunal;
- The cross-clearing of the IsraCard brand shall be subject to the terms for approval of the cross-clearing arrangement for the MasterCard and VISA brands approved by the said ruling.

  On February 7, 2013, IsraCard applied to the Antitrust Tribunal requesting approval for the terms of arrangement in accordance with the provisions of an agreement between IsraCard and ICC, replacing the terms determined in the decision of the Commissioner. On March 9, 2014, the Antitrust Tribunal decided to admit the standpoint of the Antitrust Commissioner.

3. **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 effectfrom 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).

34. CREDIT CARD ACTIVITY (CONTINUED)

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.

4. **A joint issuance agreement with Mizrahi-Tefahot Bank and the updating of its terms.** In continuation of a joint issuance agreement of November 18, 2008, between ICC and Diners, on the one part, and Mizrahi-Tefahot Bank, on the other part, (hereinafter : "the previous agreement"), the parties signed on March 2, 2014, an agreement extending and updating the previous agreement (hereinafter : "the updated agreement"). The updated agreement is in force for a period of five years, from January 1, 2014 to December 31, 2018.

   The updated agreement includes reference and updated of the provisions of the previous agreement, such as operating arrangements and the granting of services, royalties and awards payable by ICC and Diners to Mizrahi-Tefahot Bank, as well as a compensation instrument being an alternative to the option for the purchase of up to 10% of the shares in ICC that had been determined in the previous agreement. According to this instrument, Mizrahi-Tefahot Bank will receive a monetary compensation depending on the growth in turnover of use of credit cards under the joint issuance, as compared to the turnover in 2013.

5. **A joint issue agreement with Union Bank.** On July 1, 2010, ICC and Diners Club signed an agreement with Union Bank of Israel Ltd. (hereinafter - "Union Bank"). The agreement is for a period of ten years and it replaces a previous agreement between the parties, which expired on that date. Under this agreement, ICC and Diners club will issue credit cards, bank cards and combined cards to customers of Union Bank. The agreement determined operating arrangements and the granting of services by ICC and/or Diners Club for credit cards issued by them and distributed by Union Bank to its customers.

   The granting of an option to Union Bank to purchase 3% of ICC's share capital. Within the framework the agreement, as described above, Union Bank has been granted a non-transferable option to purchase from ICC 32,934 ordinary shares of NIS 0.0001 par value each in ICC, which comprised at date of the agreement 3% of the issued and paid ordinary share capital of ICC, subject to adjustment events determined in the agreement, and this at date of completion of a public issue of securities of ICC, if such will materialize, and subject to the completion of the issue. The exercise price of the option reflects a discount of 25% on the gross price of the shares as determined in the prospectus for the public offer. ICC, at its own judgment, has the right to exchange the option shares for a one-time payment in an amount equal to the exercise price multiplied by the total number of the option shares as if the option has been fully exercised.

   The shares arising from the exercise of the option, if at all, shall not be transferable to a competitor of ICC.

   The option is in effect during the period of the agreement, subject to a series of business conditions as determined in the agreement.

   ICC's decision to issue shares to Union Bank requires the approval of the Bank's Board of Directors.

C. **Events regarding the clearing of international electronic trade transactions and other matters.** In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months.

ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management.

A number of trading houses and clusterers had raised demands regarding the burden of monetary sanctions applying to them and the reduction in electronic trade clearing operations conducted with them, which as alleged by them, resulted in heavy damage. Recently, one of the clusterers, has once more raised demands in material amounts in respect of alleged damage. ICC dismisses the demands of the clusterer.

Police investigation. During the period of December 2011 – February 2012, investigators of the Israel Police entered the ICC offices in Givataim and seized various documents and computer material. The search warrant presented by the investigators indicated an investigation in the matter of "reasonable suspicion regarding the felony of false entries in corporate documents, money laundering and fraudulent possession". To the best knowledge of ICC and the Bank, the investigation relates mostly to the activity of ICC International, which operated in the field of international electronic trade clearing.

35. 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.

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:

- Revocation of the small business management fee commission;
- Revocation of the information card commission;
- Revocation of cash withdrawal card commission;
- Credit and collateral handling commission – increasing the exemption from a maximum level of NIS 50,000 to a maximum level of NIS 100,000.
- Fixing a maximum commission for the buying or selling of securities;
- Revocation of securities deposit management fees in respect of MAKAM and monetary funds;
- Revocation of the minimum commission within the framework of securities deposit management fees;
- Differential pricing in respect of the buying and selling of securities on the Internet;
- Expanding the supervision over the transfer of securities deposit commission also to the transfer of a customer's deposit outside the banking industry;
- Amendment of the definition of a "senior citizen" – presentation of a senior citizen card shall no longer be required in order to enjoy the price of a direct banking transaction also in respect of four teller transactions per month. This benefit shall be granted automatically upon the customer reaching the age stated in the Law;
- Banks are required to publish on their home page of their Internet websites a direct link to the commission tariff page;
- Bank guarantee – law enactment for the statement of the Supervisor of Banks, effective as from March 1, 2012, according to which, a bank guarantee collateralized by a cash deposit, shall enjoy a reduced rate of commission;
- Revocation of commission in respect of the change of date of charging credit card transactions.

The Amendment entered into effect on January 1, 2013. The Bank has made the necessary changes required by the Amendment.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

Letter of the Supervisor of Banks regarding the re-pricing of commissions in respect of securities operations. On November 28, 2012, the Supervisor of Banks instructed banking corporations to take action and re-price the commissions charged for the buying, selling and maturing of shares and bonds, taking into account the changes by power of the Amendment and the need to adjust them, to the extent possible, to their actual cost. In addition, the Supervisor of Banks instructed to change the manner of granting rebates on commissions in respect of securities operations, so that it will be based on the rate or amount of the commission and not on the basis of a rebate rate from the rate or amount of the tariff commission, this in respect of new agreements or renewed agreements as from March 1, 2013.

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.

Amendment to the Banking Rules (Customer service) (Commissions), 2008. The Amendment was published in the Official Gazette on November 28, 2013. The Amendment will take effect on April 1, 2014. However, effect of the Section dealing with the change in the definition of "small business", may possibly be delayed until the date on which the relevant section in the amendment to the Banking Act (Service to customer), 1981, will take effect (see above).

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 lane 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 lanes:
    - Banking corporations will be required to offer customers (individuals/small businesses) two commission lanes (uniform services assortments for the management of current accounts): the basic lane (includes one teller transaction and ten direct lane transactions) and an extended lane (includes up to ten teller transactions and up to fifty direct lane transactions);
    - In addition, a banking corporation may offer a third lane: an extended-plus lane (includes the services provided by the extended lane as well as additional services, as determined by the banking corporation);
    - 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 has delivered the said information to the Supervisor of Banks.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

The Bank is preparing for the implementation of the Amendment.

Draft amendment to the Banking Rules (Customer service) (Commissions), 2008. On March 5, 2014, the Supervisor of Banks published the draft, which deals with matters relating to commission tracks as well as additional matters relating to credit card operations.

The principal items of the draft are: commission tracks: a banking corporation has to allow participation in a commission track either in writing or by a recorded message; it is noted that the commissions in respect of a track are not included in the total commissions which a bank may charge in respect of account closing operations as detailed in the full price list; the full price list has to add that that the basic track is under supervision. Credit cards: the charging of a commission in respect of an immediate debit card transaction in the direct channel is prohibited; a deferred payment commission has been abolished; changes apply to currency conversion service commissions in respect of transactions made abroad and to commissions on cash withdrawals abroad by means of an automatic teller machine; Section 12 of the full list price includes a list of services regarding the clearing of debit card transactions field, in respect of which commissions are chargeable in accordance with the price list; a summary price list has been added for customers receiving from the bank clearing services for debit card transactions.

Draft Banking Order (Customer service) (Supervision over the basic track service), 2014. On March 5, 2014, the Bank of Israel published a press release as regards its intention to apply supervision over the cost of the basic commission track and determine its maximum cost at NIS 10. Concurrently, a draft of the Banking Order (Customer service) (Supervision over the basic service track), 2014, has been published, which establishes the said supervision. According to the draft, the Order will become effective on April 1, 2014.

Draft Amendment of Banking Rules (Customer service) (Proper disclosure and submission of documents), 1992. The Supervisor of Banks issued an updated draft of the Amendment on March 5, 2014.

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;
- Requiring a banking corporation to provide to anyone wishing to open an account for business purposes, an explanatory paper that includes, among other things, clarifications regarding the practical meaning of the classification of an account as a "small business" account with respect to the services price list;
- Requiring the banking corporation to provide to each customer wishing to join this lane, prior to his joining, information in writing regarding commission amounts charged to him during the quarter before the quarter preceding the date of submission of the joining application, in respect of services included in this lane, in the manner detailed in the Amendment;
- The Supervisor of Banks had been further authorized to determine various instructions as regards the information to be provided to a customer, as above, and concurrently, the Supervisor of Banks has also issued a draft circular that includes instructions determined in accordance with the said authority;

According to the draft amendment the effective date is thirty days following the publication thereof, excluding the instructions as regards the information to be provided prior to joining a track, which will enter into effect on April 1, 2014.

Draft Proper Conduct of Banking Business Directive in the matter of disclosure of service cost. An updated draft of the instruction was published by the Supervisor of Banks in February 2014. 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 paid by customers holding deposits of similar value to that of the deposit held by the customer, this in the manner as detailed in the instruction; 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 January 1, 2015.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

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. The Supervisor of Banks has deferred to July 1, 2014, the date on which the instruction is to take effect regarding deposits.

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.

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.

Draft amendment of Proper Conduct of Banking Business Directive No. 439 in the matter of account charging authorization. On March 5, 2014, the Supervisor of Banks published an updated draft of the amendment to the Directive. The object of the amendment is to face the difficulties involved in the process of transferring a charge authorization relating to an existing account with one bank to a new account with another bank, a matter identified as a central barrier facing customers wishing to change banks. The principal items of the amendment are: a new chapter "Submitting an application for establishment of an authorization to charge an account" has been included, which regularizes the process of submitting an application for authorization to charge an account, directly by the customer or by the beneficiary (subject to obtaining a written consent of the customer). Among other things, this chapter determines a mechanism for the transfer of a list of items from the customer or from the beneficiary to the bank, using any of the communication means defined in the amendment; instructions have been determined regularizing the response to the customer and to the beneficiary within two business days, and stating that where the response is positive, the bank has to establish the authorization within the said time period; the chapter "Application for a change of account charged by authorization" has been updated and a new process has been determined, within the framework of which, for the transfer of authorization to charge an account from one bank to another, which includes several stages: submission of an application by the customer for the transfer of charges by authorization, examination of the authorization data and the establishment and transfer of information to the beneficiary.

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.

36. EARNINGS PER SHARE

	Consolidated		
	2013	2012	2011
Basic earnings per share of NIS 0.1 (in NIS)			
Total net income, attributed to bank's shareholders	0.83	0.76	(1)0.80
Weighted number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869

Footnote:

(1) In computing the earnings per share, stock options to officers of the Bank have not been taken into account due to their antidilutive effect.

37. INFORMATION BASED ON NOMINAL DATA FOR TAX PURPOSES - THE BANK

	December 31,	
	2013	2012
	in NIS millions	
Balance Sheet		
Total assets	139,119	139,874
Total liabilities	127,208	128,372
Equity capital attributed to the Bank's shareholders	**11,911**	**11,502**

	For the Year Ended on December 31	
	2013	2012
	in NIS millions	
Statement of Income		
Net income	**884**	**833**

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
Tafnit Discount Asset 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