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CONDENSED FINANCIAL STATEMENTS

31.3.2014

ISRAEL DISCOUNT BANK

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT REVIEW

CONDENSED FINANCIAL STATEMENTS – MARCH 31, 2014

THE DISCOUNT GROUP - GENERAL OVERVIEW AND PRINCIPAL DATA

At the meeting of the Board of Directors held on May 22, 2014, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for March 31, 2014 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

PRINCIPAL OPERATIONS AND CENTRAL EVENTS DURING THE REPORTED PERIOD

The Basel III instructions are being applied by the Bank as from January 1, 2014.

The labor dispute that had been going on for eleven months was concluded during the reported period (for additional details see "Human resources" hereunder).

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 (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).

PRINCIPAL DATA

PROFITABILITY

	For the three months ended March 31		
	2014	2013	Change in %
	In NIS millions		
Interest income, net[2]	1,018	1,044	(2.5)
Credit loss expenses	75	145	(48.3)
Income before taxes	256	322	(20.5)
Provision for taxes on income	97	118	(17.8)
Income after taxes	159	204	(22.1)
Net income attributed to the Bank's shareholders	165	263	(37.3)
Net income attributed to the Bank's shareholders - disregarding the provision for impairment in value of the investment in FIBI's shares	191	263	(27.4)
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.16	0.25	
The ratio of income before taxes to total equity in %[1]	9.7	13.0	
The ratio of income after taxes to total equity in %[1]	5.9	8.1	
Net return on equity attributed to the Bank's shareholders, in %[1]	5.4	9.2	
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[1]	6.3	9.2	

Footnotes:

(1) On an annual basis.

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1E(1) to the condensed financial statements.

BALANCE SHEET

	March 31, 2014	March 31, 2013	December 31, 2013	Change in % compare to	
				March 31, 2013	December 31, 2013
	In NIS millions				
Total assets	197,996	200,135	200,507	(1.1)	(1.3)
Credit to the public, net	115,871	116,155	115,859	(0.2)	-
Securities	39,541	48,140	41,325	(17.9)	(4.3)
Deposits from the public	147,779	151,933	148,928	(2.7)	(0.8)
Equity attributed to the Bank's shareholders	12,534	11,948	12,233	4.9	2.5
Total equity	12,842	12,253	12,538	4.8	2.4

RATIO OF CAPITAL TO RISK ASSETS

	Basel III		Basel II	
	March 31, 2014	January 1, 2014	December 31, 2013	March 31, 2013
	in %			
Ratio of common equity tier 1 to risk assets (2013: core capital ratio)	9.1	8.9	9.3	8.9
Ratio of tier 1 capital to risk assets	9.9	9.7	10.1	9.6
Ratio of total capital to risk assets	14.3	14.2	14.4	14.2

FINANCIAL RATIOS

	March 31, 2014	March 31, 2013	December 31, 2013
	in %		
Ratio of total equity to total assets	6.5	6.1	6.3
Ratio of credit loss expenses to the average balance of credit to the public [(1)]	0.25	0.49	0.49
Ratio of credit to the public, net to total assets	58.5	58.0	57.8
Ratio of credit to the public, net to deposits from the public	78.4	76.5	77.8
Ratio of deposits from the public to total assets	74.6	75.9	74.3
Ratio of total non-interest income to operating expenses	54.0	60.8	58.5
Ratio of operating expenses to total income	81.9	75.9	77.5
Risk assets adjusted return[(2)]	6.0	10.0	8.2

Footnotes:

(1) On an annual basis.

(2) Return on core capital computed on the average balance of risk assets (March 31, 2014 - 8.5%, December 31, 2013 and March 31, 2013 - 8.0%).

MARKET SHARE

Based on data relating to the banking industry as of December 31, 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:

	December 31, 2013	December 31, 2012
	In %	
Total assets	16.1	16.5
Credit to the public, net	14.2	14.6
Deposits from the public	15.8	16.4
Interest income, net	16.9	17.5
Total non-interest income	19.6	19.6

DEVELOPMENT OF THE DISCOUNT SHARE

	Closing price at end of the trading day			
	December 31, 2013	March 31, 2014	May 18, 2014	Rate of change in Q1 of 2014 in %
Discount share	663	640	629	(3.5)
The Banks index	1,323.36	1,318.16	1,325.69	(0.4)
The TA 25 index	1,329.39	1,402.22	1,383.97	5.5
Discount market value (in NIS billions)	6.98	6.74	6.63	(3.4)

FORWARD-LOOKING INFORMATION

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

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

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

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

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

EXPLANATIONS REGARDING THE BUSINESS CONDITION OF THE GROUP

INCOME AND PROFITABILITY

Net profit attributed to the Bank's shareholders for the first three months of 2014 totalled NIS 165 million, compared with NIS 263 million in the corresponding period last year, a decrease of 37.3%.

With the elimination of the provision for impairment of the Bank's investment in shares of FIBI (see hereunder), the income for the first three months of 2014 would have amounted to NIS 191 million and the decrease would have reached a rate of 27.4%.

With the elimination of the provision for impairment of the Bank's investment in shares of FIBI and disregarding the effect of the implementation of the instruction regarding the measurement of interest income (FAS 91), the income for the first three months of 2014 would have amounted to NIS 205 million and the decrease would have reached a rate of 22.1%.

Return on equity net attributed to the Bank's shareholders for the first three months of 2014 reached a rate of 5.4%, on an annual basis, compared with a rate of 9.2% for the corresponding period last year, and 7.3% for all of 2013.

With the elimination of the provision for impairment of the Bank's investment in shares of FIBI (see hereunder), the return on equity in the first three months of 2014 would have reached an annualized rate of 6.3%.

With the elimination of the provision for impairment of the Bank's investment in shares of FIBI and disregarding the effect of the implementation of the instruction regarding the measurement of interest income (FAS 91), the return on equity in the first three months of 2014 would have reached an annualized rate of 6.8%.

The following are the main factors that had an effect on the business results of the Group in the first three months of 2014, compared with the corresponding period last year:

a. A decrease in interest income[1], net, of NIS 26 million, (2.5%).
b. A decrease in credit loss expenses, of NIS 70 million 48.3%).
c. A decrease in the total non-interest income, of NIS 88 million (9.8%), affected by a decrease of NIS 66 million in non-interest financing income (34.7%), a decrease of NIS 37 million in commissions[1] (5.5%) and an increase of NIS 15 million in other income (40.5%).
d. An increase of NIS 22 million in operating and other expenses (1.5%), affected, mainly, by an increase of NIS 60 million in payroll and related expenses (6.8%), which was partly offset by a decline of NIS 29 million in other expenses (10.0%).
e. Tax provision of NIS 97 million on earnings in the first three months of 2014, compared with NIS 118 million in the corresponding period last year.
f. A decrease of NIS 53 million in the Bank's share in the profits of affiliated companies after tax effect, the profits in the corresponding period last year were affected by the update (reduction) in the computation of the provision for taxes on the Bank's share in profits of FIBI.

Income relating to debt collection – second quarter 2014. The Bank is expected to recognize in the financial statements as of June 30, 2014, income relating to the collection during the second quarter of 2014, of debts that had been written off in previous years ("accounting" write-off), in the amount of between NIS 90 -110 million, before taxes.

Following is the condensed statement of comprehensive income:

	For the three months ended March 31		
	2014	2013	Change
	in NIS millions		in %
Net income attributed to the Bank's shareholders	165	263	(37.3)
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss), before taxes(1)	187	(192)	
Effect of attributed taxes	(51)	39	
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	136	(153)	
Comprehensive income, attributed to the Bank's shareholders	**301**	**110**	**173.6**

Footnote:

(1) The change in the other comprehensive income before taxes item is due mainly to the increase in the value of securities in the available-for-sale portfolio (March 31, 2013: from the realization of securities from the available-for-sale portfolio, the gains on which were classified to net income). For additional details, see Note 13.

1 For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1 E (1) to the condensed financial statements.

DEVELOPMENTS IN INCOME AND EXPENSES

General. Beginning with January 1, 2014, the Bank implements the instruction regarding interest income. The initial implementation of the instruction was by way of "from now onwards", with no restatement of the comparative data. Accordingly, the comparison between the data of the first quarter of 2014 and the data of the various quarters of 2013 has been somewhat affected as regards the items "interest income" and "commissions". For details regarding the instruction and the effect of its initial implementation, see Note 1E(1) to the condensed financial statements.

Following are the developments in certain income statement items in the first quarter of 2014, compared with the fourth quarter of 2013 and compared with the first quarter of 2013:

	2014	2013		Rate of Change Q1 2014 compared to	
	Q1	Q4	Q1	Q4 2013	Q1 2013
	In NIS millions			in %	
Interest income[4]	1,324	1,531	1,668	(13.5)	(20.6)
Interest expenses	306	460	624	(33.5)	(51.0)
Interest income, net	1,018	1,071	1,044	(4.9)	(2.5)
Credit loss expenses	75	123	145	(39.0)	(48.3)
Net interest income after credit loss expenses	**943**	**948**	**899**	**(0.5)**	**4.9**
Non-interest Income					
Non-interest financing income	124	116	190	6.9	(34.7)
Commissions[4]	631	684	668	(7.7)	(5.5)
Other income	52	61	37	(14.8)	40.5
Total non-interest income	**807**	**861**	**895**	**(6.3)**	**(9.8)**
Operating and other Expenses					
Salaries and related expenses	936	921	876	1.6	6.8
Maintenance and depreciation of buildings and equipment	298	316	307	(5.7)	(2.9)
Other expenses	260	320	289	(18.8)	(10.0)
Total operating and other expenses	**1,494**	**1,557**	**1,472**	**(4.0)**	**1.5**
Income before taxes	256	252	322	1.6	(20.5)
Provision for taxes on income	97	51	118	90.2	(17.8)
Income after taxes	159	201	204	(20.9)	(22.1)
Bank's share in income (loss) of affiliated companies, net of tax effect	[(1)(2)]15	[(1)](121)	68	-	(77.9)
Net income attributed to the non-controlling rights holders in consolidated companies	(9)	(8)	(9)	12.5	-
Net income attributed to Bank's shareholders	**165**	**72**	**263**	**129.2**	**(37.3)**
Net return on equity attributed to the Bank's shareholders, in %[(3)]	5.4	2.4	9.2		
Net income attributed to Bank's shareholders - disregarding the provision for impairment in value of the investment in the FIBI	**[(1)]191**	**[(1)]230**	**263**	**(17.0)**	**(27.4)**
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)]	[(1)]6.3	[(1)]7.7	9.2		

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14 C and D to the condensed financial statements.

(2) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see Note 14E to the condensed financial statements.

(3) On an annual basis.

(4) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1E(1) to the condensed financial statements.

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

Interest income, net. In the first three months of 2014, interest income, net, amounted to NIS 1,018 million compared with NIS 1,044 million in the corresponding period last year, a decrease of 2.5%. The decline in the interest income, net, in the amount of NIS 26 million, is explained by a negative price impact of NIS 14 million, and a negative quantitative effect in the amount of NIS 12 million (see Schedule "A" to the Management Review, below).

Had it not been for the implementation of the new instruction regarding interest income, the net interest income for the first quarter of 2014, would have amounted to NIS 985 million, a decrease of 5.7% as compared with the corresponding quarter last year.

The interest spread, excluding derivatives, reached a rate of 2.21% in the first three months of 2014, compared with 2.13% in the corresponding period last year.

The average balance of interest bearing assets has declined by a rate of approx. 3.0%, from an amount of NIS 181,846 million to NIS 176,405 million, and the average balance of interest bearing liabilities has declined by a rate of approx. 6.4%, from an amount of NIS 157,705 million to NIS 147,620 million.

Non-interest financing income. In the first three months of 2014, non-interest financing income amounted to NIS 124 million, compared to NIS 190 million in the corresponding period last year, a decrease of 34.7%.

Following are details regarding non-interest financing income:

	For the three months ended March 31		
	2014	2013	Change
	in NIS millions		
From operations in derivative instruments	39	(362)	401
From investments in bonds	105	117	(12)
Net exchange rate differences	(38)	366	(404)
From investments in shares	18	59	(41)
From sale of loans	-	10	(10)
Total non-interest financing income	**124**	**190**	**(66)**

The increase in income from activity in derivative instruments stems mostly from positive exchange rate differences amounting to NIS 430 million, which were offset by a decrease in the amount of NIS 96 million in the adjustments to fair value of derivative financial instruments.

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

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

The decline in the income from investment in shares is mainly due to a decrease in the gain on the realization of investments in funds.

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

Rates of interest income and expenses:

	For the three months ended March 31					
	2014			2013		
	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	176,405	1,324	3.04	181,846	1,668	3.72
ALM derivatives	176,136	300		149,931	426	
Total	**352,541**	**1,624**		**331,777**	**2,094**	
After elimination of adjustments to fair value of ALM derivatives		239			190	
Total	**352,541**	**1,863**	**2.13**	**331,777**	**2,284**	**2.78**
Total interest bearing liabilities	(147,620)	(306)	(0.83)	(157,705)	(624)	(1.59)
ALM derivatives	(177,170)	(335)		(151,431)	(421)	
Total	**(324,790)**	**(641)**		**(309,136)**	**(1,045)**	
After elimination of adjustments to fair value of ALM derivatives		(207)			(254)	
Total	**(324,790)**	**(848)**	**(1.05)**	**(309,136)**	**(1,299)**	**(1.69)**
Interest income, net, from current operations and the interest margin		**1,015**	**1.08**		**985**	**1.09**

Interest income from current operations, including ALM derivatives, amounted in the first three months of 2014, to NIS 1,015 million, compared to NIS 985 million in the corresponding period last year, an increase of 3.0%.

Interest margin, from current operations, including ALM derivatives reached a rate of 1.08% in the first three months of 2014, compared with 1.09% in the corresponding period last year.

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

	For the three months ended March 31		
	2014	2013	
	In NIS millions		Change in %
Retail - household segment	288	(1)325	(11.4)
Retail- small bussiness segment	191	(1)185	3.2
Corporate banking segment	229	239	(4.2)
Middle market banking segment	139	136	2.2
Private banking segment	83	83	-
Financial management segment	88	(1)76	15.8
Total	**1,018**	**1,044**	**(2.5)**

Footnote:
(1) Reclassified, see Note 12 B (3) to the condensed financial statements.

Credit loss expenses in the first three months of 2014 totalled NIS 75 million, compared with NIS 145 million in the corresponding period last year, a decrease of 48.3%. Expenses in respect of credit losses in the first three months of 2014 include a decrease in the group allowance, mostly as a result of the decline in balances, stemming partly from the intensifying of the "impaired" classification.

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

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

	2014	2013			
	Q1	Q4	Q3	Q2	Q1
	In NIS millions				
On a specific basis	104	170	102	77	101
On a group basis	(29)	(47)	69	64	44
Total	**75**	**123**	**171**	**141**	**145**
Rate of credit loss expenses to the average balance of credit to the public[(1)]:					
The rate in the quarter	0.25%	0.41%	0.58%	0.48%	0.49%
Cumulative rate since the beginning of the year	0.25%	0.49%	0.51%	0.48%	0.49%

Footnote:
(1) On an annual basis.

Commissions in the first three months of 2014, amounted to NIS 631 million, compared to NIS 668 million in the corresponding period last year, a decrease of 5.5%.

Following is the distribution of the commissions:

	For the three months ended March 31		
	2014	2013	Change
	in NIS millions		in %
Ledger fees	146	148	(1.4)
Credit cards	224	230	(2.6)
Operations in securities and in certain derivative instruments	82	76	7.9
Commissions from the distribution of financial products	31	29	6.9
Management, operational and trusteeship services for institutional bodies	4	4	-
Handling credit[(1)]	27	68	(60.3)
Conversion differences	34	29	17.2
Foreign trade services	13	13	-
Net income from credit portfolio services	4	2	100.0
Commissions on financing activities[(1)]	42	48	(12.5)
Other commissions	24	21	14.3
Total commissions	**631**	**668**	**(5.5)**

Footnote:
(1) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1E(1) to the condensed financial statements.

Had it not been for the implementation of the new instruction regarding interest income, total commissions for the first quarter of 2014, would have amounted to NIS 687 million, an increase of 2.8% as compared with the corresponding quarter last year.

Salaries and related expenses amounted to NIS 936 million in the first three months of 2014, compared with NIS 876 million in the corresponding period last year, an increase of 6.8%. The increase stems, among other things, from the effect of the wage agreement (see "Human resources" below) as well as from the updating of the rates of payroll tax and National Insurance contributions.

DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at March 31, 2014, amounted to NIS 197,996 million, compared with NIS 200,507 million at the end of 2013, a decrease of 1.3%.

Following are the developments in the principal balance sheet items:

	March 31, 2014	December 31, 2013	Rate of changes in %
	in NIS millions		
Assets			
Cash and deposits with banks	26,197	25,319	3.5
Securities	39,541	41,325	(4.3)
Credit to the public, net	115,871	115,859	-
Investments in affiliated companies	139	1,668	(91.7)
Liabilities			
Deposits from the public	147,779	148,928	(0.8)
Deposits from banks	3,774	4,213	(10.4)
Securities loaned or sold under repurchase arrangements	3,748	3,644	2.9
Subordinated capital notes	10,825	11,664	(7.2)
Equity attributed to the Bank's shareholders	12,534	12,233	2.5
Total equity	12,842	12,538	2.4

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

CREDIT TO THE PUBLIC

General. Credit to the public, net, (after provision for credit losses) as at March 31, 2014 totaled NIS 115,871 million, compared with NIS 115,859 million at the end of 2013.
For details regarding credit risk management, see "Credit risk management" under "Exposure to risks and risk management" hereunder and in the 2013 Annual Report (pp. 141-158). For details regarding the quality of credit, see Note 3 to the condensed financial statements and in the 2013 Annual Report (pp. 400-402). For details regarding the housing credit portfolio at the Discount Group, see "Mortgage Activity" under "Further details as to activity in certain products" and in the 2013 Annual Report (pp. 118-120).

COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

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

	March 31, 2014		December 31, 2013		
	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	70,597	60.9	69,874	60.3	1.0
CPI-linked shekels	16,477	14.2	17,388	15.0	(5.2)
Foreign currency and foreign currency-linked shekels	28,797	24.9	28,597	24.7	0.7
Total	**115,871**	**100.0**	**115,859**	**100.0**	**0.0**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 0.7% compared with December 31, 2013. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$20 million, an increase of 0.2% as compared to December 31, 2013. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, decreased by a rate of 0.1% as compared to December 31, 2013.

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:

	March 31, 2014		December 31, 2013		
	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	39,801	34.3	(1)40,056	34.6	(0.6)
Of which - housing loans	20,190	17.4	19,753	17.0	2.2
Retail - small bussiness segment	13,108	11.3	(1)13,000	11.2	0.8
Corporate banking segment	40,035	34.6	40,807	35.2	(1.9)
Middle market banking segment	19,384	16.7	18,612	16.1	4.1
Private banking segment	3,543	3.1	(1)3,384	2.9	4.7
Total	**115,871**	**100.0**	**115,859**	**100.0**	**-**

Footnotes:

(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

COMPOSITION OF THE OVERALL CREDIT TO THE PUBLIC RISK BY ECONOMIC SECTORS

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

	March 31, 2014		December 31, 2013		
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	1,410	0.8	1,179	0.6	19.6
Industrial	22,604	12.2	22,662	12.3	(0.3)
Construction and real estate - construction	14,787	8.0	14,743	8.0	0.3
Construction and real estate - real estate activity	17,656	9.6	17,121	9.3	3.1
Electricity and water	3,302	1.8	3,392	1.8	(2.7)
Commerce	20,147	10.9	19,838	10.7	1.6
Hotels, hotel services and food	2,831	1.5	2,898	1.6	(2.3)
Transportation and storage	4,215	2.3	4,189	2.3	0.6
Communications and computer services	2,542	1.4	2,507	1.4	1.4
Financial services	20,195	10.9	21,504	11.6	(6.1)
Other business services	8,382	4.5	8,369	4.5	0.2
Public and community services	4,905	2.7	4,876	2.6	0.6
Private individuals - housing loans	21,146	11.4	21,124	11.4	0.1
Private individuals - other	40,758	22.0	40,610	21.9	0.4
Total overall credit to the public risk	**184,880**	**100.0**	**185,012**	**100.0**	**(0.1)**
Banks	10,993		12,641		
Governments	25,279		28,486		
Total	**221,152**		**226,139**		

The data presented above shows that compared with the end of 2013, the total credit to the public risk remained almost unchanged. A rise in the credit to the public risk occurred mainly in real estate, commercial, communications and the computer services sectors. On the other hand, the risk declined in the financial services, electricity and water and in the hotels, hotel services and food sectors. For additional details see Schedule D to the Management review.

DEVELOPMENT OF PROBLEMATIC CREDIT RISK

Problematic credit risk[1] and non performing assets:

	March 31, 2014			December 31, 2013		
	Credit Risk					
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
Problematic Credit Risk:						
Impaired credit risk	(3)(4)3,736	128	3,864	(3)(4)3,873	295	4,168
Substandard credit risk	802	5	807	999	16	1,015
Special mention credit risk[2]	(5)(6)1,871	613	2,484	(5)(6)2,085	475	2,560
Total Problematic Credit Risk	**6,409**	**746**	**7,155**	**6,957**	**786**	**7,743**
Of which: Non impaired debts, in arrears for 90 days or more[2]	509			531		
Non-performing assets:						
Impaired debts - non accruing interest income	3,389			3,327		
Assets received in respect of credit settlement	2			2		
Total Non-Performing Assets	**3,391**			**3,329**		

Footnotes:

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

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

(3) Including non accruing corporate bonds in an amount of NIS 9 million (December 31, 2013- NIS 8 million).

(4) Including problematic balance sheet credit risk with respect to certain bonds of bank holding companies (TRUPS), which are held by a subsidiary, in an amount of NIS 13 million (December 31, 2013- NIS 13 million).

(5) Including accruing corporate bonds in an amount of NIS 7 million (December 31, 2013- NIS 7 million).

(6) Including problematic balance sheet credit risk with respect to certain bonds of bank holding companies (TRUPS), which are held by a subsidiary, in an amount of NIS 125 (December 31, 2013- NIS 163 million).

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

Impaired credit to the public. The balance sheet impaired credit to the public (accruing interest and non- accruing) amounted at March 31, 2014 to approx. NIS 3,714 million, compared to NIS 3,852 million at December 31, 2013, a decrease of 3.6%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at March 31, 2014 to approx. NIS 3,367 million, compared to NIS 3,306 million at December 31, 2013, an increase at a rate of 1.8%.

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

	March 31, 2014			December 31, 2013		
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		%
Industrial	22,604	1,543	6.8	22,662	1,623	7.2
Construction and real estate - construction	14,787	841	5.7	14,743	979	6.6
Construction and real estate - real estate activity	17,656	1,312	7.4	17,121	1,478	8.6
Commerce	20,147	1,080	5.4	19,838	1,043	5.3
Financial services	20,195	518	2.6	21,504	600	2.8
Private individuals - housing loans	21,146	468	2.2	21,124	477	2.3
Private individuals - other	40,758	333	0.8	40,610	357	0.9
Other Sectors	27,587	1,060	3.8	27,410	1,186	4.3
Total Public	**184,880**	**7,155**	**3.9**	**185,012**	**7,743**	**4.2**
Banks	10,993	-	-	12,641	-	-
Governments	25,279	-	-	28,486	-	-
Total	**221,152**	**7,155**	**3.2**	**226,139**	**7,743**	**3.4**

A decrease in problematic credit risk was recorded in the first quarter, focused mainly in the real estate and construction 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 2,178 million as of March 31, 2014. The balance of this allowance constitutes 1.84% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,134 million, constituting 1.81% of the credit to the public as of December 31, 2013.

The balance of the specific allowance for credit losses. The outstanding balance of the specific allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 537 million on March 31, 2014, compared to NIS 459 million on December 31, 2013.

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 March 31, 2014 to NIS 921 million, compared with NIS 950 million on December 31, 2013, a decrease of NIS 29 million in the current allowance, a rate of 3.1%.

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 March 31, 2014 to NIS 465 million, compared to NIS 467 million as of December 31, 2013, comprising a decrease in the current allowance in the amount of NIS 2 million, a rate of 0.4%.

The decline in the balance of the group allowance stemmed mainly from changes in outstanding credit balances.

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

	March 31, 2014	March 31, 2013	December 31, 2013
Ratio of balance of impaired credit to the public to balance of credit to the public	3.1%	4.2%	3.3%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.4%	0.6%	0.5%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.8%	1.8%	1.8%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	58.6%	41.5%	55.4%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public[1]	3.9%	4.4%	4.2%
Ratio of credit loss expenses to the average balance of credit to the public	0.25%	0.49%	0.49%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public.	0.1%	0.5%	0.4%
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	7.0%	27.5%	23.2%
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 90 days and over	51.6%	36.7%	48.7%
Footnote:			
(1) Disregarding certain bonds of bank holding companies (TRUPS), which are held by a subsidiary	3.8%	4.3%	4.1%

THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO

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

	Three months ended March 31			
	2014		2013	
sectors	Credit loss expenses	Rate from total periodic expenses	Credit loss expenses	Rate from total periodic expenses
	In NIS millions	%	In NIS millions	%
Industrial	17	22.3	12	8.3
Construction and real estate - construction	28	37.3	8	5.5
Construction and real estate - real estate activity	(15)	(19.4)	(3)	(2.1)
Commerce	35	46.7	67	46.2
Hotels, hotel services and food	24	32.3	(2)	(1.4)
Financial services	(4)	(5.8)	19	13.1
Other business services	-	-	25	17.2
Private Individuals - Housing Loans	(2)	(2.7)	19	13.1

The above data shows that the first quarter of 2014 recorded a decline in expenses for credit losses in most of the leading sectors, and in particular in the commercial, financial and business services and in the housing loan sectors. On the other hand, these expenses increased in respect of the construction, industrial and the hotels, hotel services and food sectors.

SECURITIES

General. Securities in the Nosrto portfolio totaled NIS 39,541 million as of March 31, 2014, compared with NIS 41,325 million at the end of 2013, a decrease of 4.3%. It is clarified that the "Nostro" portfolio of the Discount Group as of March 31, 2014, did not include any security the investment in which comprised 5% or over of the value of the total portfolio, except for one security, of the "government variable 520" type, the investment in which amounted to 7.5% of the total portfolio.

As of March 31, 2014, some 57% 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 Bank's investments in bonds, according to economic sectors, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", items 1-3). For details regarding the segmentation of the investment in government bonds according to principal governments, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "C", Item 3).

For details regarding the Nostro portfolios management policy, see 2013 Annual Report (pp. 28-29).

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

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

	March 31, 2014	December 31, 2013	Rate of change in %
	In NIS millions		
Non-linked shekels	16,802	20,804	(19.2)
CPI-linked shekels	5,529	5,474	1.0
Foreign currency and foreign currency-linked shekels	14,827	14,182	4.5
Shares - non-monetary items	2,383	865	175.5
Total	**39,541**	**41,325**	**(4.3)**

Securities in foreign currency and in Israeli currency linked to foreign currency increase by 4.5%, compared with December 31, 2013. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency increased by US$166 million, an increase of 4.1% as compared with December 31, 2013. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms decreased by 4.5% as compared with December 31, 2013.

COMPOSITION OF THE SECURITIES PORTFOLIO ACCORDING TO PORTFOLIO CLASSIFICATION

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

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

	March 31,2014			December 31 ,2013		
	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	7,035	7,405	7,035	7,174	7,424	7,174
Available for sale	28,594	28,932	28,932	30,940	31,108	31,108
Trading	1,183	1,191	1,191	2,181	2,178	2,178
Shares						
Available for sale	2,330	2,371	2,371	838	852	852
Trading	14	12	12	14	13	13
Total Securities	**39,156**	**39,911**	**39,541**	**41,147**	**41,575**	**41,325**

The growth in the available-for-sale shares item stems mainly from the classification of the investment in the shares of FIBI to this portfolio as from March 13, 2014 (see Note 14 E to the condensed financial statements).

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 299 million as of March 31, 2014, presented in other comprehensive income, in the item “adjustments, net, for presentation of available-for-sale securities at fair value" (December 31, 2013: NIS 404 million, of which NIS 11 million, being the Bank's share in reserves of FIBI). For details as to the classification of the balance of the Bank's share in reserves of FIBI, see Note 14 E to the condensed financial statements.

Corporate bonds. Discount Group's available for sale securities portfolio as of March 31, 2014, includes investments in corporate bonds in the amount of NIS 4,190 million (including an amount of NIS 1,344 million held by IDB New York, an amount of NIS 914 million, held by Mercantile and NIS 1,931 million directly held by the Bank). For additional details, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", item 1). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 2 to the condensed financial statements.

INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

Investments in mortgage and asset backed securities – general. Discount Group’s securities portfolio as of March 31, 2014 includes investment in mortgage backed securities, in the amount of US$2,401 million, which are held by IDB New York, compared to an amount of US$2,326 million as at December 31, 2013. The majority of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac). The investment in the said bonds does not include exposure to the subprime market.

As of March 31, 2014, the portfolio of mortgage backed securities (MBS) and asset backed securities included unrealized net losses of US$36 million.

For details regarding the agencies operating under the auspices of the U.S. Administration, see the 2013 Annual Report (p. 32).

Direct investments in Federal Agencies’ bonds. The securities portfolio of the Discount Group as at March 31, 2014 and December 31, 2013, includes a direct investment in FHLB, Fannie Mae and Freddie Mac bonds (hereinafter: "the Federal Agencies"), that are held by IDB New York, in an amount of US$25 million.

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).

DETAILS REGARDING IMPAIRMENT IN VALUE OF AVAILABLE FOR SALE SECURITIES

General. The point in time for determining the length of the period in which the investment was in a continuous unrealized loss position, is the date of the financial statements for the reporting period during which a continuous impairment first occurred.
The rate of the decline in the fair value below cost is computed as of the reporting date. This is so even if during the period in which the investment was in a continuous unrealized loss position, the rate of decline in fair value below cost was significantly different from the rate applying on the reporting date.
For details regarding the review of impairment of securities, see "Critical accounting policies and critical accounting estimates" in the 2013 Annual Report (p. 242) and Note 1 to the financial statements as of December 31, 2013 (pp. 357-358).
Based on a review of the impairment of the said securities as of March 31, 2014, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.
As at March 31, 2014, unrealized accumulated losses in respect of available-for sale shares amounted to an amount lower than NIS 1 million. As at March 31, 2013 and December 31, 2013, there were no unrealized accumulated losses in respect of available-for sale shares. As of March 31, 2014, March 31, 2013 and December 31, 2013, unrealized accumulated losses on available-for-sale mortgage backed securities amounted to total amounts of NIS 147 million, NIS 60 million and NIS 200 million, respectively. For additional details, see Note 2 D to the condensed 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).

DEPOSITS FROM THE PUBLIC

Deposits from the public as at March 31, 2014, totalled NIS 147,779 million, compared with NIS 148,928 million at the end of 2013, a decrease of 0.8%, and compared with NIS 151,933 million as of March 31, 2013, a decrease of 2.7%. The decline derived, mostly, from the classification of assets and liabilities of DBLA as "held for sale" (see note 18 to the condensed financial statements).

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

	March 31, 2014		December 31, 2013		
	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	83,385	56.4	85,467	57.4	(2.4)
CPI-linked shekels	10,392	7.0	10,797	7.2	(3.8)
Foreign currency and foreign currency-linked shekels	54,002	36.5	52,664	35.4	2.5
Total	**147,779**	**100.0**	**148,928**	**100.0**	**(0.8)**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 2.5%, compared with December 31, 2013. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$314 million, an increase of 2.1% compared with December 31, 2013. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, decreased at a rate of 0.9%, compared with December 2013.

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

	March 31, 2014		December 31, 2013		
	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	65,090	44.0	64,794	43.5	0.5
Retail - small bussiness segment	14,830	10.0	16,371	11.0	(9.4)
Corporate banking segment	22,261	15.1	23,503	15.8	(5.3)
Middle market banking segment	10,066	6.8	(1)10,678	7.2	(5.7)
Private banking segment	35,532	24.1	(1)33,582	22.5	5.8
Total	**147,779**	**100.0**	**148,928**	**100.0**	**(0.8)**

Footnote:
(1) Reclassified, see Note 12 B (4).

CAPITAL RESOURCES

IMPLEMENTATION OF BASEL III IN ISRAEL

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

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

Future issues of capital instruments. 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 - 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 March 31, 2014, 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, without the consideration of income accumulated during the period, the ratio of common equity tier 1 would have been reduced by 0.2% from 9.1% to 8.9%.

The effect of adoption of the Directive on the core capital - long-term effect. The Bank estimates that had the guidelines included in the Directive been implemented in full as of March 31, 2014, on the basis of the data for this date, and without taking into account the provisional instructions (excluding the discount regarding the sale of all the shares of FIBI held by the Bank) (a situation equal to the situation that will prevail in 2022, approx. nine years after the date of initial implementation of the directive, including the effect of the discount rate in computing employees rights, though without taking into consideration earnings that will accumulate during the period), the ratio of common equity tier 1 would have declined by 1.6%, from 9.1% to 7.5%. (For details regarding the long-term effect, excluding the effect of the change in the discount rate used for the computation of employee rights, see Note 5 to the condensed financial statements).

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

Moreover, the said estimates assume a situation of static existence of the data as of March 31, 2014, throughout the period of implementation, while in practice changes will occur during the period of implementation in the capital adequacy of the Bank, both as a result of the accumulation of current earnings and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result will inevitably be different than from the estimates stated above.

Preparations made by the Bank. The Bank 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.

COMPONENTS OF CAPITAL

Total capital as at March 31, 2014, totalled NIS 12,842 million, compared with NIS 12,538 million at the end of 2013, an increase of 2.4%.

Equity attributed to the Bank's shareholders as at March 31, 2014, totalled NIS 12,534 million, compared with NIS 12,233 million at the end of 2013, an increase of 2.5%. The change in equity attributed to the Bank's shareholders in the first three months of 2014 was affected, among other things, by the net earnings during the period, by an increase of NIS 120 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect and from an increase of NIS 16 million in financial statements transactions adjustments.

The ratio of total capital, to total assets as at March 31, 2014, reached a rate of 6.5%, compared with 6.3% at the end of 2013.

COMPONENTS OF THE REGULATORY CAPITAL AS OF MARCH 31, 2014 (BASEL III)

General. As stated, starting with January 1, 2014, the new instructions in accordance with the Basel III guidelines gradually came into effect. The data presented below 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 data presented hereunder is in Basel III terms – data as of January 1, 2014, date of initial implementation of the new instructions, and as of March 31, 2014. Note 5 to the condensed financial statements also include data in Basel II terms, as of December 31, 2013 and March 31, 2013.

For details regarding the effect of the implementation of the Basel III instructions as of January 1, 2014, see the 2013 annual report (pp.36-38).

Ratio of common equity tier 1 (core capital ratio in Basel II terms) on March 31, 2014, amounted to 9.1%, as compared with 8.9% on January 1, 2014.

Total capital ratio as of March 31, 2014, amounted to 14.3%, as compared with 14.2% on January 1, 2014.

	March 31	January 1
	2014	2014
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1, after deductions	12,673	12,364
Additional tier 1 capital after deductions	1,145	1,136
Tier 1 capital	13,818	13,500
Tier 2 capital	6,100	6,124
Total capital	**19,918**	**19,624**
2. Weighted risk assets balance		
Credit risk	122,879	122,592
Market risk	3,005	2,588
CVA risk	1,292	1,144
Operational risk	12,184	12,217
Total weighted risk assets balance	**139,360**	**138,541**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	9.1	8.9
Ratio of tier 1 capital to risk assets	9.9	9.7
Ratio of total capital to risk assets	14.3	14.2
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1	(1)9.0	(1)9.0
Total capital ratio	(1)12.5	(1)12.5

Footnote:
(1) Starting with January 1,2015.

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 report for the first quarter of 2014 (the present report). The information included in parts "A" and "B" of the document is presented here by way of reference.

LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

GENERAL

A 4% increase was recorded during the first quarter of 2014 in the M1 money supply (cash held by the public and shekel current account deposits) as well as a 1% increase in the M2 money supply (M1 together with non-linked deposits of up to one year). It is noted that similar changes were recorded in the corresponding period last year.

The Changes in the money supply mostly reflected an increase in current account deposits and current credit deposits, and on the other hand a decrease in deposits of up to one year. This, alongside the lowering of the interest rate at the beginning of the year and the rising prices on the capital market. The said developments have seemingly led to a shift from deposits with banks (on the background of the low interest rate) to liquid assets (allowing exploitation of opportunities on the capital markets).

A marginal increase of NIS 0.5 billion was recorded in the monetary base in the reviewed period, compared to an increase of NIS 5.3 billion in the first quarter of 2013. The increase reflected liquidity supply by the Bank of Israel, mostly through foreign currency conversion, which was partly offset by Government absorption.

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

	First quarter 2014	First quarter 2013	change in %
	In NIS billion		
Operations on the Capital Market	(2.7)	(2.7)	-
The Shekel deposits tender	3.0	20.0	(85.0)
Foreign currency conversion	10.4	-	-
Government activity	(10.6)	(12.0)	-

THE BANK

During the first three months of 2014, the Bank has maintained liquid assets in a volume larger than its total liquid liabilities and the Bank's internal liquidity model has shown significant liquidity surplus.

The following trends were noticed during the first quarter:

- A transition from deposits to shekel current account balances in the volume of NIS 800 million;
- Foreign currency deposits, an increase of US$160 million in the volume of deposits, most of which in retail deposits;
- A decline of 2.8% in the volume of non-linked shekel deposits and a decline of 6% in the volume of CPI linked deposits. The decline includes the redemption of debt notes in the amount NIS 450 million. The total amount of shekel deposits declined by NIS 2.3 billion, of which wholesale deposits of NIS 1.6 billion and retail deposits of NIS 670 million.
- An across the industry decline in the cost of foreign currency liquidity, as it is measured on the SWAP and corporate deposit market.

For additional details, see below in the item "Liquidity risk management" and in the 2013 annual report (pp. 40-42).

DEPOSITS FROM THE PUBLIC

	March 31, 2014	March 31, 2013	December 31, 2013	Change compared March 31, 2013 In NIS millions	in %	Change compared December 31, 2013 In NIS millions	in %
	In NIS millions						
Non-linked shekels	68,453	70,084	70,442	(1,631)	(2.3)	(1,989)	(2.8)
CPI-linked shekels	11,397	11,938	12,128	(541)	(4.5)	(731)	(6.0)
Foreign currency and foreign currency linked shekels	29,361	28,820	28,608	541	1.9	753	2.6
Total	**109,211**	**110,842**	**111,178**	**(1,631)**	**(1.5)**	**(1,967)**	**(1.8)**
Foreign currency and foreign currency linked shekels - In US$ millions	**8,420**	**7,900**	**8,242**	**520**	**6.6**	**178**	**2.2**

DEPOSITS FROM BANKS

	March 31, 2014	March 31, 2013	December 31, 2013	Change compared March 31, 2013 In NIS millions	in %	Change compared December 31, 2013 In NIS millions	in %
	In NIS millions						
Non-linked shekels	727	799	1,000	(72)	(9.0)	(273)	(27.3)
CPI-linked shekels	246	599	468	(353)	(58.9)	(222)	(47.4)
Foreign currency and foreign currency linked shekels	587	2,128	869	(1,541)	(72.4)	(282)	(32.5)
Total	**1,560**	**3,526**	**2,337**	**(1,966)**	**(55.8)**	**(777)**	**(33.3)**

RAISING OF RESOURCES

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 2014-2022. 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 2014-2022. Regulatory capital instruments, which are to be subtracted in the course of April-December 2014, in accordance with the transitional provisions, amount to NIS 140 million.

NIS 1,575 million were deducted in the first three months of 2014 (of which an amount of NIS 600 million would have been deducted also in accordance with the Basel II instructions).

DISCLOSURE REGARDING DEPOSITS

Deposits from the public of the three largest depositor groups amounted as of March 31, 2014, to NIS 5,968 million.

For additional details, see "Management and measurement of the liquidity risk" under "Exposure to risks and risk management" and Note 4 to the condensed financial statements.

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

ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATIONS

GENERAL

For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal assumptions, estimates and principles used in the preparation of segment information, see Note 31 to the financial statements as of December 31, 2013 (pp. 515-518).

RETAIL SEGMENT - GENERAL

The Bank presents two retail segments: "Household segment" and "Small business segment". For details regarding "Retail Segment - General", see the 2013 Annual Report (pp. 43-46).

DISCOUNT, THE BANK FOR THE FAMILY

In February 2013, the Bank launched a program, first of its kind in Israel, which is designed for existing and new customers who are related to one another. A "family program" turns the existing family cell into a financial group, enjoying the variety of services and exclusive benefits.

The program is enjoyed by the Bank's customers who join as a group to the "family program" at Discount Bank. Joining the program is simple and easy and is made possible by registering at the branch, at the TeleBank center and through the Bank's Internet site.

The connection to the family group grants the family members participating in the program, benefits of a personal value in

accordance with the status of the accounts and in accordance with the type of benefits elected by the participants, and everything, of course, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members.
For additional details, see the 2013 Annual Report (pp. 43-44).

"MAFTEACH DISCOUNT"

In 2014, the Bank is continuing the unique marketing effort in the area of financial consumption – the credit card "Mafteach Discount".
For additional details regarding this move, see the 2013 Annual Report (p. 46).

DEVELOPMENTS IN THE SEGMENT

Direct channels. Responsibility for the direct channels was transferred in the first quarter from the Strategy, Planning and Finance Division to the Banking Division.
Changes in branches. At the end of the first quarter, the Bank has 143 branches in operation, following the closing down of the MATAM Branch and the "Discount your way" Branch opposite the park. The conversion of all the "Discount Home" branches into ordinary branches was completed in the first quarter of the year.
Operational efficiency in the branches. In the first quarter of 2014, the Bank launched a remote check control operation in thirty branches, intending to cover all branches of the Bank until the end of the year. Moreover, by the end of the first quarter (accumulated since its beginning), an activity has been conducted for the conversion of basic documents in a total of ninety-six of the Bank's branches. For additional details, see the 2013 annual report (p.46).

RETAIL BANKING SEGMENT - HOUSEHOLD SEGMENT

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

For details regarding the recommendations of the team examining the strengthening of competition in the banking industry and measures taken by the Supervisor of Banks for their implementation and additional measures taken by the Supervisor of Banks for improving competition and increasing transparency in current account management, see Note 16 to the condensed financial statements.

For details regarding the draft instruction in the matter of "Customer benefits", see the 2013 Annual Report (p. 201).

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's loss in the first three months of 2014 amounted to NIS 9 million, compared to a loss in the amount of NIS 1 million in the corresponding period last year.
The credit loss expenses in this segment in the first three months of 2014 amounted to an expense reduction of NIS 10 million, compared to expenses of NIS 17 million in the corresponding period last year.

Principal data relating to the operations of the household segment:

	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Total
	in NIS millions						
	For the three months ended March 31,2014						
Interest income, net							
- From external sources	95	61	-	78	234	(1)-	234
- Intersegmental	120	(8)	-	(58)	54	(1)-	54
Total Interest income, net	215	53	-	20	288	(1)-	288
Non-interest financing income	-	2	1	-	3	(1)-	3
Commissions and Other income	111	202	60	8	381	(1)-	381
Total Income	**326**	**257**	**61**	**28**	**672**	**(1)-**	**672**
Credit loss expenses	(16)	8	-	(2)	(10)	(1)-	(10)
Net Income (loss) Attributed to the Bank's shareholders	**(38)**	**27**	**4**	**(2)**	**(9)**	**(1)-**	**(9)**
Return on equity (percentage)	(15.5)	12.4	61.6	(1.2)	(1.4)	-	(1.4)
Average Assets	9,646	8,818	-	20,003	38,467	21	38,488
Of which - Average credit to the public	9,646	8,818	-	20,003	38,467	21	38,488
Average Liabilities	65,545	2,598	-	42	68,185	36	68,221
Of which - Average deposits from the public	65,545	-	-	42	65,587	36	65,623
	For the three months ended March 31,2013						
Interest income, net							
- From external sources	(4)(7)	(4)63	-	(4)181	237	(2)-	237
- Intersegmental	(4)245	(4) (8)	-	(1)(4)(149)	88	(2)-	88
Total Interest income, net	238	55	-	(1)32	325	(2)-	325
Non-interest financing income	1	3	1	-	5	(2)-	5
Commissions and Other income	112	198	52	5	367	(2)-	367
Total Income	**351**	**256**	**53**	**37**	**697**	**(2)-**	**697**
Credit loss expenses	(1)	(1)	-	19	17	(2)-	17
Net Income (Loss) Attributed to the Bank's shareholders	**(25)**	**27**	**7**	**(10)**	**(1)**	**(2)-**	**(1)**
Return on equity (percentage)	(13.3)	17.2	115.4	(4.4)	(0.3)	-	(0.3)
Average Assets	8,755	8,089	-	19,894	36,738	18	36,756
Of which - Average credit to the public	8,755	8,089	-	19,894	36,738	18	36,756
Average Liabilities	66,486	2,349	-	5	68,840	(3)51	68,891
Of which - Average deposits from the public	66,486	-	-	5	66,491	(3)51	66,542

Footnotes:

(1) Reclassified, see Note 12 B (3) to the condensed financial statements.

(2) Amount lower than NIS 1 million.

(3) Reclassified, see Note 12 B (4) to the condensed financial statements.

(4) Reclassified, see Note 12 B (1) to the condensed financial statements.

For further details regarding the "Retail banking segment - household segment", see the 2013 Annual Report (pp. 47-53).

RETAIL BANKING SEGMENT - SMALL BUSINESS SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first three months of 2014 amounted to NIS 58 million, compared to NIS 47 million in the corresponding period last year, an increase of 23.4%.

The credit loss expenses in this segment in the first three months of 2014 amounted to an expense reduction of NIS 3 million, compared to an expense of NIS 22 million in the corresponding period last year.

Commissions and other income amounted in the first three months of 2014 to NIS 94 million, as compared with NIS 115 million in the corresponding period last year, a decline of 18.3%. The said decline stemmed mainly from the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), as detailed in Note 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first three months of 2014 to NIS 118 million, an increase of 2.6%.

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

	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total
	in NIS millions					
	For the three months ended March 31,2014					
Interest income, net						
- From external sources	196	5	-	(1)	29	229
- Intersegmental	(26)	(1)	-	14	(25)	(38)
Total Interest income, net	170	4	-	13	4	191
Non-interest financing income	1	1	-	-	-	2
Commissions and Other income	75	5	10	4	-	94
Total Income	**246**	**10**	**10**	**17**	**4**	**287**
Credit loss expenses	7	-	-	(2)	(8)	(3)
Net Income (loss) Attributed to the Bank's shareholders	**39**	**6**	**(1)**	**10**	**4**	**58**
Return on equity (percentage)	21.6	44.2	(56.7)	62.7	28.3	25.8
Average Assets	10,663	382	-	1,081	957	13,083
Of which - Average credit to the public	10,663	382	-	1,081	957	13,083
Average Liabilities	14,235	659	-	811	2	15,707
Of which - Average deposits from the public	14,235	659	-	811	2	15,707
	For the three months ended March 31,2013					
Interest income, net						
- From external sources	(2)156	(2)7	-	(2)12	14	189
- Intersegmental	(2)8	(2)(2)	-	(2)(2)	(1)(8)	(4)
Total Interest income, net	164	5	-	10	6	185
Non-interest financing income	-	-	1	-	-	1
Commissions and Other income	87	13	10	5	-	115
Total Income	**251**	**18**	**11**	**15**	**6**	**301**
Credit loss expenses	24	-	-	(2)	-	22
Net Income Attributed to the Bank's shareholders	**31**	**4**	**-**	**10**	**2**	**47**
Return on equity (percentage)	19.0	24.1	5.6	73.3	3.7	21.4
Average Assets	10,001	386	-	852	983	12,222
Of which - Average credit to the public	10,001	386	-	852	983	12,222
Average Liabilities	15,118	850	-	717	2	16,687
Of which - Average deposits from the public	15,118	-	-	717	2	15,837

Footnotes:

(1) Reclassified, see Note 12 B (3) to the condensed financial statements.

(2) Reclassified, see Note 12 B (1) to the condensed financial statements.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

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

For further details regarding the "Retail Banking Segment - Small Business Segment", see the 2013 Annual Report (pp. 53-57).

CORPORATE BANKING SEGMENT

REACHING TARGETS AND BUSINESS STRATEGY - FIRST THREE MONTHS OF 2014

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

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

As of March 31, 2014, no deviations existed to the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as March 31, 2014, there were no deviations from the limitations on "related persons". 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 the 2013 Annual Report, pp. 233-237).

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 studied 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. Up to the 2013 Annual Report, the calculations regarding the Bank's compliance with the limitations did not include the Bank's investments in the said securities. A clarification issued by the Supervisor of Banks was received on May 1, 2014, according to which, for the purpose of computing the indebtedness according to Directive No. 313, it is required to weight the amount by 50%.

Draft Proper Conduct of Banking Business Directive No. 312 in the matter of "A banking corporation business with related parties". The draft was published on February 24, 2014, within the framework of which it is suggested to amend the Directive in a manner that would intensify the restrictions applying to a banking corporation business with related parties. An updated draft was published in April 2014.

Among other things, it is proposed to enlarge the list of related parties by adding shareholders owning over 5% of the shares of the banking corporation, including whoever controls these shareholders, corporations controlled by them, as well as officers of such corporations. As regards a banking corporation having no core controlling interest, it is proposed to add also a shareholder who proposed a candidate for office as director. It is also suggested to add to the list of related parties also descendants of officers and their dependents, who had previously not been included in the list of related parties.

Furthermore, it is suggested to change the definition of the capital used in the restriction regarding the volume of transactions with related parties, to common equity Tier 1 instead of the regulatory capital applying in the existing Directive. It is also suggested to add a new restriction according to which, the total indebtedness of an officer of a banking corporation, his relatives and corporations under their control shall not exceed NIS 1 million.

It is also suggested to determine a lower minimum level for related party transactions that have to be approved by the audit committee.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first three months of 2014 amounted to NIS 54 million, compared with NIS 58 million in the corresponding period last year, a decrease of 6.9%.

The credit loss expenses in this segment in the first three months of 2014 amounted to NIS 54 million, compared to NIS 102 million in the corresponding period last year, a decrease of 47.1%.

Commissions and other income amounted in the first three months of 2014 to NIS 89 million, as compared with NIS 108 million in the corresponding period last year, a decline of 17.6%. The said decline stemmed mainly from the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), as detailed in Note 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first three months of 2014 to NIS 103 million, a decrease of 4.6%.

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

	Domestic operations					International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions								
	For the three months ended March 31,2014								
Interest income, net									
- From external sources	134	4	-	80	218	50	6	56	274
- Intersegmental	(7)	-	-	(20)	(27)	(18)	-	(18)	(45)
Total Interest income, net	127	4	-	60	191	32	6	38	229
Non-interest financing income	10	1	-	-	11	-	-	-	11
Commissions and Other income	32	6	17	21	76	11	2	13	89
Total Income	**169**	**11**	**17**	**81**	**278**	**43**	**8**	**51**	**329**
Credit loss expenses	22	-	-	1	23	6	25	31	54
Net Income (loss) Attributed to the Bank's shareholders	**23**	**(3)**	**1**	**44**	**65**	**8**	**(19)**	**(11)**	**54**
Return on equity (percentage)	4.9	(29.4)	41.2	14.3	8.0	5.3	(97.7)	(6.6)	5.6
Average Assets	20,993	405	27	9,754	31,179	6,164	1,668	7,832	39,011
Of which - Average credit to the public	20,993	405	27	9,754	31,179	6,164	1,668	7,832	39,011
Average Liabilities	17,418	690	6	1,959	20,073	1,809	345	2,154	22,227
Of which - Average deposits from the public	17,418	-	-	1,959	19,377	1,809	345	2,154	21,531
	For the three months ended March 31,2013								
Interest income, net									
- From external sources	(2)152	4	-	(2)115	271	45	7	52	323
- Intersegmental	(2)(20)	-	-	(2)(52)	(72)	(10)	(2)	(12)	(84)
Total Interest income, net	132	4	-	63	199	35	5	40	239
Non-interest financing income	23	-	2	(1)	24	-	-	-	24
Commissions and Other income	50	11	12	24	97	10	1	11	108
Total Income	**205**	**15**	**14**	**86**	**320**	**45**	**6**	**51**	**371**
Credit loss expenses	79	-	-	12	91	3	8	11	102
Net Income (loss) Attributed to the Bank's shareholders	**11**	**3**	**3**	**36**	**53**	**10**	**(5)**	**5**	**58**
Return on equity (percentage)	2.1	33.7	201.5	10.9	-	9.4	(18.0)	1.9	5.4
Average Assets	23,205	410	26	12,218	35,859	(1)5,925	1,929	7,854	43,713
Of which - Average credit to the public	23,205	410	-	12,218	35,833	(1)5,925	1,929	7,854	43,687
Average Liabilities	18,890	889	1	2,123	21,903	(1)2,078	(1)329	2,407	24,310
Of which - Average deposits from the public	18,890	-	-	2,123	21,013	(1)2,078	(1)329	2,407	23,420

Footnotes:

(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

(2) Reclassified, see Note 12 B (1) to the condensed financial statements.

DEVELOPMENTS IN THE BUSSINESS SECTOR IN THE FIRST THREE MONTHS OF 2014

The product grew in the first quarter of 2014 at an annual rate of 2.1% (the lowest rate since 2009), this compared to a growth of 2.9% in the last quarter of 2013, and 2.3% in the corresponding quarter last year. The growth rate of the business product slowed down to 0.4% (2.1% and 2.8% in the preceding quarter and in the corresponding quarter in 2013, respectively). Following are the factors which affected the development of the business product in the first quarter of 2014:

- A decline of 2% in private consumption, compared to a growth of 1.1% in the fourth quarter of 2013, and 5.2% in the first quarter last year;
- A steep decline (9.8%) for the second consecutive quarter in investments in fixed assets (excluding ships and aircrafts). The said decline reflected a decline of 18% in investments in economic sectors and a 6% decline in investments in housing projects (for the second consecutive quarter);
- A growth of 6.3% in exports, in continuation to a growth of 22% in the previous quarter. The export data reflect expansion in both the export of goods and of services;
- Public consumption (excluding defense imports) recorded a growth of 2% in the first quarter (3.5% in the fourth quarter of 2013). The said slowdown in public consumption reflected a slowdown in civilian consumption and a regression (for the third consecutive quarter) in purchases from the local defense industry.

In contrast to the slowdown/regression in applications, the import of goods and services (excluding defense imports) accelerated to a rate of 6%. It is noted that the import data reflected a steep growth in the import of services (following a regression) and a moderate growth in the import of goods.

DEVELOPMENTS IN THE DEBT OF THE BUSSINESS SECTOR

The debt of the business sector (excluding banks and insurance companies) amounted at the end of February 2014 to NIS 779 billion, a rise of 0.4% compared with the end of December 2013.

The said rise in the debt stems from a growth of 1.8% in the debt to institutional bodies and a growth of 1% in the debt to households and corporations (marketable corporate bonds). The debt to the banks remained unchanged at a level of NIS 386 billion. As a result of the said developments, the weight of the banks in the total debt of the business sector declined from 49.7% at the end of 2013 to 49.5% at the end of February 2014.

According to the Bank of Israel assessments in quantitative terms (eliminating the effects of inflation and changes in exchange rates), the total debt of the business sector recorded an increase of 0.3% in the reviewed period. The said increase stemmed from a growth of 1.4% in the marketable bonds debt and a growth of 1.1% in nonmarketable bonds and off-banking loans, while the debt to banks declined by 0.2% and the debt to foreign entities declined by 0.1%.

The volume of corporate bond issues in the period January to March amounted to NIS 9.4 billion, compared with NIS 10.8 billion in the corresponding period last year.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of the first quarter of 2014 was 0.8%, compared with 1.2% at the end of the previous quarter (and 1.3% at the end of the quarter before that).

DEVELOPMENTS IN THE SEGMENT'S MARKETS

Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined economic sector affected by foreign demand. A trend of recovery is noticed in the industry as from the end of 2013 and during the first quarter of 2014, with an improvement in the industrial production index and in foreign trade data;
- Diamonds – Steady activity of the sector in Israel and supply of increasing demand from the U.S., even on account of a decline in demand in East Asia markets;

- The services sectors – these sectors are varied sectors and partly characterized by changes in regulation and increased competition;
- Transportation sector – persistence of the increased competition in the aviation field due to the implementation of the "open skies" agreement and the increase in passenger traffic to and from Israel served by foreign airline companies.
  The recovery in the marine transportation field, which characterized the year 2013, was halted, with the Baltic Dry Index declining by 20% during the first quarter of 2014;
- The commerce sector – certain moderation in the indicators for this sector, in view of the decline in turnover of the retail trade and in the consumption of durable goods. Customer expectations also continue to be wary, reflected in the customer confidence index, which remained at a relatively low level;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS

The growth forecast of the Bank of Israel for 2014 stands at 3.41% (2.8% net of the effect of the natural gas production). Namely, the continued slow expansion of the local economy, though growth, net of the natural gas effect, is expected to improve slightly (as compared with 2.5% in 2013).
The various anticipation surveys indicate stability in the evaluation of the economic situation made by the business factors, though at the same time, the downward trend in the imports of investment products and raw material continues, which might point at certain concerns.
Also, the increase in the interest environment around the world and in the domestic economy is expected to have a moderating effect upon the growth rates of private consumption and of investments, a fact that would have an effect on the commerce sector.
On the other hand, the continuing improvement in the level of international trade is expected to have a positive effect on the industrial sector.
For details regarding developments expected in the real estate and infrastructure sector, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

EXPECTED DEVELOPMENTS IN CREDIT TO THE CORPORATE BANKING SEGMENT

Banking credit. The trend of stagnation in the business sector is expected to continue, in view of the requirement to comply with the capital targets and the reduction in concentration risks, as well as in view of:
- The increasing competition on the part of institutional bodies;
- The decline in demand for business credit;
- The continuing moderate growth of the economy alongside a weakness in the industrial sectors.

Off-banking credit. A growth is anticipated in off-banking credit. This, mainly due to fast growth in non-marketable private loans.
The above said in the last two items is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy. The foregoing may not materialize in case of different changes in macro-economic conditions, which are not under the Bank's control.

For further details regarding the "Corporate Banking Segment", see the 2013 Annual Report (pp. 57-66).

MIDDLE MARKET BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first three months of 2014 amounted to NIS 24 million, compared with NIS 35 million in the corresponding period last year, a decrease of 31.4%.

The credit loss expenses in the first three months of 2014 amounted to NIS 35 million, compared with NIS 22 million in the corresponding period last year, an increase of 59.1%.

Commissions and other income amounted in the first three months of 2014 to NIS 43 million, as compared with NIS 41 million in the corresponding period last year, an increase of 4.9%. The said increase was moderated mainly as a result of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), as detailed in Note 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first three months of 2014 to NIS 53 million, an increase of 29.3%.

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

	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
	For the three months ended March 31,2014									
Interest income, net										
- From external sources	54	2	-	28	1	85	32	46	78	163
- Intersegmental	10	-	-	(3)	-	7	(21)	(10)	(31)	(24)
Total Interest income, net	64	2	-	25	1	92	11	36	47	139
Non-interest financing income	3	-	-	-	-	3	-	-	-	3
Commissions and Other income	19	6	2	5	-	32	2	9	11	43
Total Income	**86**	**8**	**2**	**30**	**1**	**127**	**13**	**45**	**58**	**185**
Credit loss expenses	27	-	-	5	-	32	(4)	7	3	35
Net Income (loss) Attributed to the Bank's shareholders	**-**	**5**	**1**	**9**	**-**	**15**	**(1)**	**10**	**9**	**24**
Return on equity (percentage)	(0.5)	86.6	-	10.9	1.2	5.6	(0.3)	16.5	4.4	5.1
Average Assets	7,122	107	-	3,589	356	11,174	4,204	3,634	7,838	19,012
Of which - Average credit to the public	7,122	107	-	3,589	356	11,174	4,204	3,634	7,838	19,012
Average Liabilities	7,289	184	-	914	1	8,388	1,213	916	2,129	10,517
Of which - Average deposits from the public	7,289	184	-	914	1	8,388	1,213	916	2,129	10,517
	For the three months ended March 31,2013									
Interest income, net										
- From external sources	[3]82	[3]1	-	[3]27	-	110	39	29	68	178
- Intersegmental	[3](23)	[3]-	-	[3](4)	-	(27)	(10)	(5)	(15)	(42)
Total Interest income, net	59	1	-	23	-	83	29	24	53	136
Non-interest financing income	3	-	-	-	-	3	-	-	-	3
Commissions and Other income	20	3	2	8	-	33	5	3	8	41
Total Income	**82**	**4**	**2**	**31**	**-**	**119**	**34**	**27**	**61**	**180**
Credit loss expenses	12	-	-	(1)	-	11	8	3	11	22
Net Income Attributed to the Bank's shareholders	**11**	**-**	**-**	**15**	**-**	**26**	**3**	**6**	**9**	**35**
Return on equity (percentage)	7.9	18.8	111.1	18.1	0.2	-	1.5	6.7	4.3	8.2
Average Assets	7,090	108	-	3,074	377	10,649	[2]4,524	3,784	8,308	18,957
Of which - Average credit to the public	7,090	108	-	3,074	377	10,649	[2]4,524	3,784	8,308	18,957
Average Liabilities	[1]6,789	237	-	878	1	7,905	[2]1,606	[2]1,007	2,613	10,518
Of which - Average deposits from the public	[1]6,789	-	-	878	1	7,668	[2]1,606	[2]1,007	2,613	10,281

Footnotes:

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

(2) Reclassified, see Note 12 B (4) to the condensed financial statements.

(3) Reclassified, see Note 12 B (1) to the condensed financial statements.

For further details regarding the "Middle Market Banking Segment", see the 2013 Annual Report (pp. 67-70).

PRIVATE BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first three months of 2014 amounted to NIS 18 million, compared with NIS 9 million in the corresponding period last year, an increase of 100.0%.

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

	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
	For the three months ended March 31,2014						
Interest income, net							
- From external sources	(22)	-	(22)	26	-	26	4
- Intersegmental	44	-	44	35	-	35	79
Total Interest income, net	22	-	22	61	-	61	83
Non-interest financing income	1	-	1	-	-	-	1
Commissions and Other income	10	13	23	35	15	50	73
Total Income	**33**	**13**	**46**	**96**	**15**	**111**	**157**
Credit loss expenses	-	-	-	(1)	-	(1)	(1)
Net Income (loss) Attributed to the bank's shareholders	**(1)**	**4**	**3**	**10**	**5**	**15**	**18**
Return on equity (percentage)	0.0	153.7	12.2	12.0	-	18.6	16.5
Average Assets	1,102	-	1,102	3,625	-	3,625	4,727
Of which - Average credit to the public	1,102	-	1,102	2,407	-	2,407	3,509
Average Liabilities	16,935	-	16,935	18,357	-	18,357	35,292
Of which - Average deposits from the public	16,935	-	16,935	18,357	-	18,357	35,292
	For the three months ended March 31,2013						
Interest income, net							
- From external sources	(3)(39)	-	(39)	18	-	18	(21)
- Intersegmental	(3)62	-	62	42	-	42	104
Total Interest income, net	23	-	23	60	-	60	83
Non-interest financing income	-	-	-	10	-	10	10
Commissions and Other income	9	11	20	34	15	49	69
Total Income	**32**	**11**	**43**	**104**	**15**	**119**	**162**
Credit loss expenses	(4)	1	(3)	1	-	1	(2)
Net Income (loss) Attributed to the bank's shareholders	**(8)**	**(2)**	**(10)**	**19**	**-**	**19**	**9**
Return on equity (percentage)	(20.9)	(25.3)	-	(25.3)	(25.3)	31.2	10.3
Average Assets	1,343	-	1,343	2,807	-	2,807	4,150
Of which - Average credit to the public	1,343	-	1,343	2,807	-	2,807	4,150
Average Liabilities	(1)16,242	-	16,242	(2)20,025	-	20,025	36,267
Of which - Average deposits from the public	(1)16,242	-	16,242	(2)20,025	-	20,025	36,267

Footnotes:

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

(2) Reclassified, see Note 12 B (4) to the condensed financial statements.

(3) Reclassified, see Note 12 B (1) to the condensed financial statements.

DEVELOPMENTS IN THE SEGMENT

For details regarding foreign resident customer acceptance policy, see "Taxation" hereunder.

For further details regarding the "Private Banking Segment", see the 2013 Annual Report (pp. 70-74).

FINANCIAL MANAGEMENT SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's income in the first three months of 2014, not including the activity of the non-financial companies sub-segment, amounted to NIS 7 million, compared to an income of NIS 73 million in the corresponding period last year.

Total income in the first three months of 2014 amounted to NIS 180 million, similar to the corresponding period last year, and they include three main components:

1. Income from the Bank's "Nostro" operations in Israel in the net amount of NIS 4 million, net, including a gain of NIS 99 million from the sale of securities (mostly Government bonds) and fair value adjustments of marketable securities, compared to an income of NIS 165 million from nostro activity in the corresponding period last year, including a profit of NIS 171 million from the sale of securities and fair value adjustments of marketable securities.
2. Gain from assets and liabilities management (from positions management and from currency and financial derivatives trading and brokerage) of NIS 128 million, compared to a gain of NIS 14 million in the corresponding period last year.
3. Income from international operations in the amount of NIS 48 million, compared with income of NIS 1 million in the corresponding period last year.

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

	Domestic Operations	International Operations	Total	Domestic Operations	International Operations	Total
	For the three months ended March 31					
	2014			2013		
	in NIS millions					
Interest income, net	48	40	88	(3)65	11	76
Non-interest financing income	71	18	89	97	3	100
Commissions and Other income	13	(10)	3	17	(13)	4
Total Income	**132**	**48**	**180**	**179**	**1**	**180**
Credit loss expenses	(5)	5	-	(1)	(15)	(16)
Net Income (loss) Attributed to the Bank's shareholders	**(6)**	**13**	**7**	**65**	**8**	**73**
Return on equity (percentage)	(1.2)	15.7	1.3	16.9	8.5	15.2
Average Assets	63,863	18,353	82,216	(1)62,644	(2)22,338	84,982
Average Liabilities	20,764	11,689	32,453	(1)21,790	(2)10,763	32,553

Footnotes:
(1) Reclassified, see "General" above, at the beginning of this Chapter.
(2) Reclassified, see Note 12 B (4) to the condensed financial statements.
(3) Reclassified, see Note 12 B (3) to the condensed financial statements.

For further details regarding the "Financial Management Segment", see the 2013 Annual Report (pp. 74-77).

NON-FINANCIAL COMPANIES SUB-SEGMENT

GENERAL

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

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

As of March 31, 2014, the amount of the Bank's investment in non-financial corporations was less than the restricted amount pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details see the 2013 Annual Report (p. 71).

SCALE OF OPERATIONS AND NET PROFIT OF THE SUB-SEGMENT

The sub-segment's net income in the first three months of 2014 amounted to NIS 13 million, compared with NIS 42 million in the corresponding period last year, a decrease of 69.0%.

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

	For the three months ended March 31	
	2014	2013
	in NIS millions	
Interest income, net	-	-
Non-interest financing income	15	47
Commissions and Other income	-	1
Total Income	**15**	**48**
Net Income Attributed to the Bank's shareholders	**13**	**42**

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

DCMI is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of March 31, 2014, the net investments of DCMI in these corporations and funds amounted to approx. US$236 million. As of March 31, 2014, the maximum future commitment of DCMI for investment in these corporations and funds amounted to approx. US$86 million.

In addition to the investment in funds through DCMI, the Bank has made a direct investment in an additional fund. The fund realized the balance of its investments and was dissolved.

Furthermore, Mercantile Discount Bank is committed to invest in six venture capital funds. As of March 31, 2014, the investment of Mercantile Discount Bank in these funds amounted to US$2.9 million. As of March 31, 2014, the maximum additional commitment for the future investments in these funds amounted to US$0.9 million.

DEVELOPMENTS IN THE SUB-SEGMENT

Realizations. In the first three months of 2014, realizations were recorded in funds in respect of which DCMI has recognized gains in the total amount of NIS 3 million, compared with NIS 48 million in the corresponding period last year.

Investment in dividend paying shares. As of March 31, 2014, DCMI holds the shares of five companies, purchased in off-market transaction, the total value of which in DCMI's books amounts to NIS 66 million. During the first quarter, DCMI realized the whole of its investment in one of the companies at a gain of NIS 8 million.

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

For further details regarding the "Non-financial companies sub-segment", see the 2013 Annual Report (pp. 78-81).

FURTHER DETAILS AS TO ACTIVITY IN CERTAIN PRODUCTS

CREDIT CARD OPERATIONS

GENERAL INFORMATION ON THE OPERATIONS

Following are quantitative data regarding the activity of ICC:

	March 31, 2014		December 31, 2013	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,356	1,154	1,339	1,146
Off-banking cards	822	592	834	590
Total	**2,178**	**1,746**	**2,173**	**1,736**

Transactions turnover	For the three months ended March 31, 2014	For the three months ended March 31, 2013	For the year ended December 31, 2013
	in NIS millions		
Bank cards	11,398	10,671	44,928
Off-banking cards	3,133	2,948	12,469
Total	**14,531**	**13,619**	**57,397**

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

SCALE OF OPERATIONS AND NET INCOME

Net income in the first three months of 2014 amounted to NIS 35 million, compared with NIS 34 million in the corresponding period last year, an increase of 2.9%.

The credit loss expenses amounted in the first three months of 2014 to NIS 8 million, compared with a reduction of the expenses of NIS 1 million in the corresponding period last year.

Principal data relating to the credit cards operations:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
	For the three months ended March 31,2014				
Interest income, net					
- From external sources	61	5	4	2	72
- Intersegmental	(8)	(1)	-	-	(9)
Total Interest income, net	53	4	4	2	63
Non-interest financing income	2	1	1	-	4
Commissions and Other income	202	5	6	6	219
Total Income	**257**	**10**	**11**	**8**	**286**
Credit loss expenses	8	-	-	-	8
Net Income (loss) Attributed to the Bank's shareholders	**27**	**6**	**(3)**	**5**	**35**
Return on equity (percentage)	12.4	44.2	(29.4)	86.6	3.5
Average Assets	8,818	382	405	107	9,712
Average Liabilities	2,598	659	690	184	4,131

	For the three months ended March 31,2013				
Interest income, net					
- From external sources	(1)63	(1)7	4	1	75
- Intersegmental	(1)(8)	(1)(2)	-	-	(10)
Total Interest income, net	55	5	4	1	65
Non-interest financing income	3	-	-	-	3
Commissions and Other income	198	13	11	3	225
Total Income	**256**	**18**	**15**	**4**	**293**
Credit loss expenses	(1)	-	-	-	(1)
Net Income Attributed to the Bank's shareholders	**27**	**4**	**3**	**-**	**34**
Return on equity (percentage)	17.2	24.1	33.7	18.8	4.4
Average Assets	8,089	386	410	108	8,993
Average Liabilities	2,349	850	889	237	4,325

Footnote:
(1) Reclassified, see Note 12 B (1) to the condensed financial statements.

LEGISLATION AND REGULATIONS

Banking Law (Licensing) (Clearing of Charge Card Transactions). The aforesaid law entered into effect upon its publication in August 2011, apart from the provisions relating to opening the clearing market to competition which entered into effect on May 15, 2012. In January 2012, ICC, LeumiCard and IsraCard were defined as "issuer having a wide-ranging activity" (within the meaning of this term in the said legislation amendment). The Supervisor of Banks extended the date for ICC for obtaining a clearing license until March 2015. For further details, see the 2013 Annual Report (pp. 85-87).

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.

In continuation thereof, the Ministers Committee dealing with cost of living matters met on April 2, 2014, and, among other things, decided to examine the determination of a differential cross commission in respect of deferred debit cards, in accordance with the size of the trading house; to examine the possibility of obligating trading houses to allow the customer to choose between a deferred debit transaction or an immediate debit transaction in the case of each transaction exceeding NIS 500; to examine the possibility of obligating credit card companies to issue an immediate debit card at no extra cost upon the issue of a deferred debit card; to promote the solution allowing the use of one credit card for all types of debits (deferred, immediate, credit); to regulate the transfer of monies from the issuer to the clearing agent and to the trading house within three business days, in transactions involving an immediate debit; to regulate the transfer of monies from the issuer to the clearing agent within three business days, in transactions involving deferred debit; to examine the promotion of an additional brand (to that of ABS) for debit card transactions; to promote the use of the EMV standard, including by way of granting incentives to trading houses, as well as approach the Antitrust Commissioner in order to prepare within ninety days a Bill that would authorize the Commissioner to determine the cross commission.

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

For details regarding a draft amendment of the Banking Rules (Customer service) (Commissions), within the framework of which it is, among other things, proposed to impose certain limitations on the charging of commissions regarding credit card operations, see Note 16 to the condensed financial statements.

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

For further details as to the legislation concerning the credit card activity, see the 2013 Annual Report (pp. 85-87).

DEVELOPMENTS IN THE OPERATIONS

An "El Al" brand name credit card. Diners has started the process of issuing a credit card for use in the air travel field, and presently conducts advance negotiations with EL Al Israel Airlines Ltd. for the signing of agreements regarding an El Al brand name credit card. The proposed card will be issued at two levels:

- A basic card designed for most Diners customers. The significant benefits granted by this card are a significantly improved conversion in relation to that in practice at the present time, as well as the possibility of accumulating additional points among leading business partners in the retail and tourist markets;
- A premium card designed for VIP members of the "frequent flyer" club as well as for customers with a high credit card spending profile. The significant benefits granted by this card are an improved conversion rate compared to the basic card, the possibility of additional accumulation with business partners as well as benefits in the air travel field.

Proposed changes in commissions. For details regarding a draft proposing a change in commissions in respect of credit cards, see Note 16 to the condensed financial statements. ICC estimates that if the draft would be approved in its present format, its annual income would be adversely affected by an amount of NIS 30 million.

Agreement with Mizrahi-Tefahot Bank. For details regarding the renewal of the agreement, see the 2013 Annual Report (p. 526) and Note 15 to the condensed financial statements.

Establishment of an additional service center. ICC has decided on the establishment of a third service center in Ashdod. This, with the aim of providing swift, courteous and professional response to customers of this field.

For further details regarding the credit card operations, see the 2013 Annual Report (pp. 81-92).

OPERATIONS IN THE CAPITAL MARKET

TREND OF EVENTS AND DEVELOPMENTS IN THE MACRO-ECONOMIC ENVIRONMENT

The mutual funds market. The net raising of deposits in the mutual funds market amounted since the beginning of the year to NIS 14.5 billion, compared to net deposits of NIS 17.1 billion raised in the corresponding period last year. The significant raising of deposits in funds specializing in Israeli bonds was accelerated during the first three months of 2014 to a level of NIS 14.2 billion. Positive raising of deposits were recorded also in funds specializing in equities (approx. NIS 1 billion) and in funds investing abroad (NIS 1.3 billion). On the other hand, during the same period the monetary funds and the shekel funds recorded a net negative accumulation of NIS 1.8 billion and NIS 219 million, respectively.

According to the Bank of Israel data, assets of mutual funds investing in bonds increased in the said period by NIS 16.6 billion. Assets of the non-linked funds increased by NIS 7.3 billion, assets of the CPI linked funds increased by NIS 6.5 billion, assets of the equity funds increased by NIS 2.1 billion and the assets of funds investing abroad increased by NIS 2.2 billion.

The provident funds market. In the twelve months ended March 31, 2014, provident funds classified as "personal severance pay and provident funds" achieved a positive average return of 9.28%. The increase in return stemmed from the increases in the various indices in the stock exchange.

According to data published by the Capital Markets Division at the Ministry of Finance, provident funds classified as "personal severance pay and provident funds" showed a net withdrawal of funds in the amount of NIS 2 billion, in the twelve months ended March 31, 2014, compared to net accumulated withdrawals of NIS 3.1 billion in the previous twelve months ended March 31, 2013. The volume of provident fund assets as of March 31, 2014 amounted to approx. NIS 185 billion, compared to approx. NIS 172.5 billion as of March 31, 2013, an increase of NIS 13 billion (approx. 7%).

The new pension funds market. The new pension funds achieved in the twelve months ended March 31, 2014, an average positive return of 10.8%. According to data published by the Capital Market Division at the Ministry of Finance, all the new pension funds showed a positive accumulation of funds in the amount of NIS 18.7 billion in the twelve months ended March 31, 2014, compared to a net positive accumulation of funds of NIS 16 billion in the preceding twelve months ended March 31, 2013. The volume of the new pension funds amounted to 165.6 billion as of March 31, 2014, compared to NIS 133.2 billion as of March 31, 2013, an increase of NIS 32.4 billion (approx. 24%).

The basket certificate market. According to data published by the Tel Aviv Stock Exchange, twenty-eight new basket certificates were issued in the first three months of 2014. The number of basket certificates based on indices products amounted to 555 at the end of March 2014, of which, twenty-five currency certificates. In total for the first quarter of the year, the public purchased NIS 0.1 billion, following the purchase of NIS 3.8 billion in 2013.

Capital Market. For details regarding developments in the capital market in the first three months of 2014, see "Capital market" under "Main developments in Israel and around the world in the first three months of 2014" hereunder.

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

Draft Companies Regulations (Announcement and notice regarding a general meeting and a class meeting in a public company), 2014; draft Companies Regulations (Proof of ownership of shares for the purpose of voting in general meetings), 2014; draft Companies Regulations (Voting in writing and notices of position), 2014; Draft Companies Order (Amendment of the First Addendum to the Act), 2014. Updated drafts of the amendments were passed during March 2014 for approval of the Constitution, Law and Justice Committee of the Knesset. For additional details, see the 2013 annual report (p. 97).

Report of the Committee for the improvement of trading and encouragement of liquidity on the Stock Exchange (headed by Prof. Ben Horin). The final recommendations of the Committee were published on April 7, 2014. For additional details, see the 2013 annual report (p. 99).

Safe harbor protection against use of inside information. On April, 13, 2014, the final version of the statement of position of the staff of the Israel Securities Authority was published in the matter of safe harbor protection against use of inside information in the case of transactions in securities of a corporation made by senior officers, employees and principal shareholders of that corporation. The publication includes the principles according to which the corporation is required to act in order to provide the above mentioned parties with safe harbor protection upon the execution of transactions in securities issued by it.

For details regarding the repricing of commissions on securities operations, changes in the full pricelist regarding commissions on securities transactions and disclosure of the cost of securities services, see Note 16 to the condensed financial statements.

For further details regarding legislative restrictions, regulations and special constraints applicable to the operations in the capital market, see 2013 Annual Report (pp. 94-99).

SCALE OF OPERATIONS AND NET INCOME

The net gain recorded from operations in the first three months of 2014 amounted to NIS 14 million, compared to NIS 10 million in the corresponding period last year, an increase of 40.0%.

Principal data relating to the operations in the capital market:

	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
	For the three months ended March 31,2014								
Total Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	1	-	-	-	-	-	1	-	1
Commissions and Other income	60	10	17	2	13	-	102	15	117
Total Income	**61**	**10**	**17**	**2**	**13**	**-**	**103**	**15**	**118**
Net Income (loss) Attributed to the Bank's shareholders	**4**	**(1)**	**1**	**1**	**4**	**-**	**9**	**5**	**14**
Average Assets	-	-	27	-	-	-	27	-	27
Average Liabilities	-	-	6	-	-	-	6	-	6
	For the three months ended March 31,2013								
Total Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	1	1	2	-	-	-	4	-	4
Commissions and Other income	52	10	12	2	11	6	93	15	108
Total Income	**53**	**11**	**14**	**2**	**11**	**6**	**97**	**15**	**112**
Net Income (loss) Attributed to the Bank's shareholders	**7**	**-**	**3**	**-**	**(2)**	**2**	**10**	**-**	**10**
Average Assets	-	-	26	-	-	1	27	-	27
Average Liabilities	-	-	1	-	-	1	2	-	2

DATA RELATING TO THE SCALE OF OPERATIONS IN DIFFERENT AREAS

Securities. On March 31, 2014, the balance of securities held for the Bank's customers amounted to NIS 150.3 billion, including NIS 10.6 billion of non-marketable securities, compared to approx. NIS 147.5 billion as at December 31, 2013, including NIS 10.6 billion of non-marketable securities, an increase of approx. 1.9% (For details as to income from security activities, see Note 11 to the condensed financial statements).

In addition, on March 31, 2014, Mercantile Discount Bank held securities on behalf of customers in an amount of approx. NIS 11.7 billion, compared to NIS 11.5 billion on December 31, 2013, an increase of approx. 2.0%.

Investment portfolio management. On March 31, 2014, Tafnit was managing investment portfolios, which together were valued at approx. NIS 4,458 million, as compared to approx. NIS 3,963 million as at December 31, 2013, an increase of approx. 12.5%.

Pension advisory services. As from the start of operations in March 2008 and until the end of March 2014, advisory services were provided to some 87 thousand customers. The accumulation of customer assets, to whom advice has been provided, amounted to NIS 12.3 billion, in the said period.

For further details regarding the operations in the capital market, see the 2013 Annual Report (pp. 92-104).

CONSTRUCTION AND REAL ESTATE ACTIVITY

DEVELOPMENT IN MARKETS OF THE ACTIVITY

Residential property. A rise of 1.4% in residential units prices took place in the months January to March 2014, as shown by the freehold residential units price index. The influence of the new plans of the Government for the reduction in residential units prices is yet unclear. These include: "target price" and "zero VAT on new apartments" in accordance with criteria to be determined with respect to apartment prices.

Beginning of construction projects. The low volume of beginnings of construction projects during 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[1], 3.4% higher compared with 2012 and which exceeds the annual additional demand for residential units for the third year running.

The average monthly amount of mortgage loans granted in the first quarter of 2014 was slightly lower than the monthly average in 2013 (approx. NIS 4.3 billion) reaching NIS 4.2 billion. The granting of mortgage loans in March 2014 amounted to NIS 4.5 billion, higher than the figure for February and January (NIS 4.3 billion and NIS 3.8 billion, respectively). The balance of housing loans remained almost unchanged at NIS 289 billion.

Income producing commercial real estate. Slight decline in prices was recorded in 2013 alongside stability in occupancy rates. Despite this, the decline was concentrated in certain cities and focused on old commercial properties, while in other cities having an inventory of modern commercial properties, rental fees reflected stability. A sizable offer of approved building plans is available, the materialization of which may lead to surplus supply followed by a drop in rental fees.

Income producing office premises. A decline in rental fees was recorded in certain areas in 2013. Surplus areas exist in the central region, mostly in the Bnei-Braq and Holon areas, which experience difficulties in occupying the new projects and a decline in prices.

LEGISLATIVE AND REGULATORY LIMITATIONS AND SPECIAL CONSTRAINTS APPLYING TO THE ACTIVITY

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector stood at a rate of 17.6% as of March 31, 2014.

SCALE OF OPERATIONS AND NET PROFIT

Net profit from operations in the first three months of 2014 amounted to NIS 54 million, compared with NIS 62 million in the corresponding period last year, a decrease of 12.9%.

The credit loss expenses in the first three months of 2014, amounted to NIS 36 million, compared with NIS 20 million in the corresponding period last year, an increase of 80.0%.

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

Local activity – Income in the first three months of 2014 amounted to NIS 128 million, compared to NIS 132 million in the corresponding period last year, a decrease of 3.0%. An increase of NIS 63 million was recorded in net income, compared to NIS 61 million in the corresponding period last year.

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

International activity – Income in the first three months of 2014 amounted to NIS 53 million, compared to NIS 33 million in the corresponding period last year, an increase of 60.1%, attributed mostly to an increase in interest income.

Principal data relating to the construction and real estate operations:

	Domestic operations				International operatins			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
	For the three months ended March 31,2014							
Interest income, net								
- From external sources	(1)	80	28	107	46	6	52	159
- Intersegmental	14	(20)	(3)	(9)	(10)	-	(10)	(19)
Total Interest income, net	13	60	25	98	36	6	42	140
Non-interest financing income	-	-	-	-	-	-	-	-
Commissions and Other income	4	21	5	30	9	2	11	41
Total Income	**17**	**81**	**30**	**128**	**45**	**8**	**53**	**181**
Credit loss expenses	(2)	1	5	4	7	25	32	36
Net Income (loss) Attributed to the bank's shareholders	**10**	**44**	**9**	**63**	**10**	**(19)**	**(9)**	**54**
Return on equity (percentage)	62.7	14.3	10.9	3.6	16.5	(97.7)	(3.4)	2.7
Average Assets	1,081	9,754	3,589	14,424	3,634	1,668	5,302	19,726
Average Liabilities	811	1,959	914	3,684	916	345	1,261	4,945
	For the three months ended March 31,2013							
Interest income, net								
- From external sources	(2)12	(2)115	(2)27	154	29	7	36	190
- Intersegmental	(2)(2)	(2)(52)	(2)(4)	(58)	(5)	(2)	(7)	(65)
Total Interest income, net	10	63	23	96	24	5	29	125
Non-interest financing income	-	(1)	-	(1)	-	-	-	(1)
Commissions and Other income	5	24	8	37	3	1	4	41
Total Income	**15**	**86**	**31**	**132**	**27**	**6**	**33**	**165**
Credit loss expenses	(2)	12	(1)	9	3	8	11	20
Net Income (loss) Attributed to the bank's shareholders	**10**	**36**	**15**	**61**	**6**	**(5)**	**1**	**62**
Return on equity (percentage)	73.3	10.9	18.1	3.3	6.7	(18.0)	0.2	2.6
Average Assets	852	12,218	3,074	16,144	3,784	1,929	5,713	21,857
Average Liabilities	717	2,123	878	3,718	(1)1,007	(1)329	1,336	5,054

Footnotes:

(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

(2) Reclassified, see Note 12 B (1) to the condensed financial statements.

For further details regarding the construction and real estate activity, see the 2013 Annual Report (pp. 104-111).

MORTGAGE ACTIVITY

DEVELOPMENTS IN THE MORTGAGE MARKET

	For the three months ended March 31		
	2014	2013	Change
	in NIS millions		in %
Total housing loans granted by the mortgage banks, excluding internal recycling of loans	12,508	11,865	5.4
Loans from State funds	58	63	(7.9)

LEGISLATIVE RESTRICTIONS AND REGULATIONS

Amendment of Proper Conduct of Banking Business Directive No. 318 – Collateral data base. The changes in the Directive will become effective on July 1, 2014 (for additional details, see the 2013 Annual Report, p. 116).

Draft circular of the Commissioner of Insurance in the matter of renewal of an insurance agreement. The Commissioner of Insurance issued on March 25, 2014 a draft circular according to which insurance companies intending to renew an insurance policy for an additional period will be required to give the insured a notice forty-five days prior to the end of the insurance period, which is to include the data stated in the circular. In the event that the consent of the insured to the renewal of the policy is not received, the policy will be cancelled. According to the draft circular, the above shall apply also to group insurance policies that exist in property insurance related to mortgage loans granted by Discount Mortgage Bank Ltd. in the period until the year 2005, as well as to property insurance effected by the insurance agency owned by the Bank. Implementation of the circular might leave properties serving as security for loans granted by the Bank without an insurance coverage.

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

For details regarding guidelines and instructions of the Supervisor of Banks in this respect, see the 2013 Annual Report (pp. 116-117). The Supervisor of Banks issued on April 24, 2014, a draft provisional instruction intended to combine the instructions and limitations determined in this matter into one comprehensive provisional instruction.

The draft redefines the term "the ratio of repayment to income" and clarifies the terms for the recognition of income of self-employed persons, foreign residents, hired workers and controlling interests in corporations. The change in the definitions will apply to loans approved as from June 1, 2014. In addition, the draft includes a guideline according to which a risk weight of 100% instead of a range of 35%-100% applying at the present time, would be applied to housing loans approved as from June 1, 2014, in amounts exceeding NIS 5 million.

Concurrently, the Supervisor of Banks published a draft "questions & answers" file, collecting together the issues that have been raised since the publication of the earlier guidelines, within the framework of which clarifications are provided regarding various matters relating to the ratio of repayments to income, the financing ratio, recycling of loans, limitations on loans bearing variable interest and allocation of risk assets. Among other things, a banking corporation will have to maintain data for the purpose of risk management and stress tests with respect to the income of the borrower, such as the amount of his disposable income, the level of his net monthly income and his fixed expenses.

SCALE OF OPERATIONS AND NET PROFIT

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:

	For the three months ended March 31			For the year ended December 31,
	2014	2013		2013
	In NIS millions	In NIS millions	Change in %	In NIS millions
From bank funds(1)	695	668	4	2,901
From Treasury funds (2)	3	2	50	13
Total of new loans	698	670	4	2,914
Recycled loans	176	157	12	823
Total	**874**	**827**	**6**	**3,737**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 48 million in in the first three months of 2014, compared to NIS 50 million as at March 31, 2013 and NIS 197 million in 2013
(2) Including standing loans in the amount of NIS 2 million in the first three months of 2014, compared to NIS 0.4 as at March 31, 2013 and NIS 7 million in 2013.

The net gain of the segment in the first three months of 2014 amounted to NIS 2 million, compared to a loss in the amount of NIS 8 million in the corresponding period last year.

The credit loss expenses. In the first three months of 2014, an expense reduction in the amount of NIS 10 million was recorded, compared with an expense of NIS 19 million in the corresponding period last year.

Principal data relating to the mortgage activity:

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
	For the three months ended March 31,2014			
Interest income, net				
- From external sources	78	29	1	108
- Intersegmental	(58)	(25)	-	(83)
Total Interest income, net	20	4	1	25
Non-interest financing income	-	-	-	-
Commissions and Other income	8	-	-	8
Total Income	**28**	**4**	**1**	**33**
Credit loss expenses	(2)	(8)	-	(10)
Net income (loss) Attributed to the Bank's shareholders	**(2)**	**4**	**-**	**2**
Return on equity (percentage)	(1.2)	28.3	1.2	0.2
Average Assets	20,003	957	356	21,316
Average Liabilities	42	2	1	45
	For the three months ended March 31,2013			
Interest income, net				
- From external sources	181	14	-	195
- Intersegmental	(1)(149)	(1)(8)	-	(157)
Total Interest income, net	32	6	-	38
Non-interest financing income	-	-	-	-
Commissions and Other income	5	-	-	5
Total Income	**37**	**6**	**-**	**43**
Credit loss expenses	19	-	-	19
Net Income (loss) attributed to the Bank's shareholders	**(10)**	**2**	**-**	**(8)**
Return on equity (percentage)	(4.4)	3.7	0.2	(0.9)
Average Assets	19,894	983	377	21,254
Average Liabilities	5	2	1	8

Footnote:
(1) Reclassified, see Note 12 B (3) to the condensed financial statements.

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:

	For the three months ended March 31	For the year ended December 31,
	2014	2013
Average amount of loan (in NIS thousands)	645	638
Average financing ratio for housing loans	53.3	52.9
Average financing ratio for general purpuse loans	37.0	37.0

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 (the rate rose slightly in the first quarter of 2014).

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

	March 31		December 31,			
	2014		2013		2012	
Credit limit (in NIS thousands)	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 1,200	17,150	85.5	17,265	85.7	17,014	85.7
Between 1,200 and 4,000	2,567	12.8	2,552	12.7	2,524	12.7
Over 4,000	338	1.7	327	1.6	325	1.6
Total	**20,055**	**100.0**	**20,144**	**100.0**	**19,863**	**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:

As at	Balance of credit to the public(1)	Balance of problematic credit(1)	Balance of allowances for credit losses(2)(3)	Ratio of problematic debt
	In NIS millions			in %
March 31, 2014	20,310	434	181	2.1
December 31, 2013	20,401	449	184	2.2
December 31, 2012	20,092	447	181	2.2

Footnotes:

(1) .Recorded amount

(2) As at March 31, 2014 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 159 million, and also an allowance over the extent of arrears in an amount of NIS 22 million (as of December 31, 2013: NIS 168 million and NIS 16 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

	For the three months ended March 31				For the year ended December 31,	
	2014		2013		2013	
Finance ratio[1]	In NIS millions	% of total credit granted	In NIS millions	% of total credit granted	In NIS millions	% of total credit granted
Up to 45%	215	30.9	207	31.0	901	31.1
Between 45% and 60%	270	38.8	312	46.7	1,270	43.8
Over 60%	210	30.2	149	22.3	730	25.2
Total	**695**	**100.0**	**668**	**100.0**	**2,901**	**100.0**

Footnote:

(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 approx. 25%-30% of the total credit granted.

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

	Non-linked credit(2)			CPI linked credit(2)			Foreign currency linked credit(2)			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
	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 (1)(2)
As at March 31, 2014	1,236	7,405	43.1	5,436	5,483	54.4	5	490	2.5	20,055
As at December 31, 2013	992	7,446	41.9	6,273	5,073	56.3	6	354	1.8	20,144
As at December 31, 2012	448	7,249	38.7	6,987	4,765	59.2	4	410	2.1	19,863

Footnotes:

(1) Of which approx. NIS 197 million housing loans granted for acquisition groups which are in the process of construction.

(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 March 31, 2014, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 1,383 million, comprising 6.9% of the total housing loans portfolio (as of December 31, 2013, the balance amounted to NIS 1,408 million, comprising 7.0% 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:

	For the three months ended March 31				For the year ended December 31,	
	2014		2013		2013	
Ratio of repayments to earnings(1)	In NIS millions	% of total credit granted	In NIS millions	% of total credit granted	In NIS millions	% of total credit granted
Up to 40%	551	91.4	522	91.4	2,264	88.8
Over 40%	52	8.6	49	8.6	286	11.2
Total	**603**	**100.0**	**571**	**100.0**	**2,550**	**100.0**

Footnote:

(1) The computation of the ratio of repayments to earnings did not include Bullet and Baloon loans.

A growth was recorded in recent years in the volume of credit granted with a repayment ratio of over 40%. It is noted in this respect that as from the middle of 2012, the Bank uses a rating model that takes into account additional parameters related to the repayment ability, so that approval of credit is based upon a full picture of the repayment ability and not only 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.

For further details regarding the mortgage activity - housing loan, see the 2013 Annual Report (pp. 111-120). For details regarding credit risk relating to housing loans, see below under "Exposure to risk and risk management".

INTERNATIONAL OPERATIONS

GENERAL

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

SCALE OF OPERATIONS AND NET PROFIT

Net profit of the operations in the first three months of 2014 amounted to NIS 26 million, compared with NIS 41 million in the corresponding period last year, a decrease of 36.6%.

The credit loss expenses in this segment amounted to NIS 38 million in the first three months of 2014, compared to NIS 8 million in the corresponding period last year, an increase of 375.0%.

Principal data relating to the international operations:

	Households	Corporate Banking	Middle Market Banking	Private Banking	Financial management	Total
	in NIS millions					
	For the three months ended March 31,2014					
Interest income, net	(1)-	38	47	61	40	186
Non-interest financing income	(1)-	-	-	()	18	18
Commissions and Other income	(1)-	13	11	50	(10)	64
Total Income	**(1)-**	**51**	**58**	**111**	**48**	**268**
Credit loss expenses	(1)-	31	3	(1)	5	38
Net Income (loss) Attributed to the Bank's shareholders	**(1)-**	**(11)**	**9**	**15**	**13**	**26**
Return on equity (percentage)	(1)-	(6.6)	4.4	18.6	15.7	1.3
Average Assets	21	7,832	7,838	3,625	18,353	37,669
Average Liabilities	36	2,154	2,129	18,357	11,689	34,365

	Households	Corporate Banking	Middle Market Banking	Private Banking	Financial management	Total
	For the three months ended March 31,2013					
Interest income, net	(1)-	40	53	60	11	164
Non-interest financing income	(1)-	-	-	10	3	13
Commissions and Other income	(1)-	11	8	49	(13)	55
Total Income	**(1)-**	**51**	**61**	**119**	**1**	**232**
Credit loss expenses	(1)-	11	11	1	(15)	8
Net Income Attributed to the Bank's shareholders	**(1)-**	**5**	**9**	**19**	**8**	**41**
Return on equity (percentage)	-	1.9	4.3	31.2	8.5	2.1
Average Assets	18	(2)7,854	(2)8,308	2,807	(2)22,338	41,325
Average Liabilities	(2)51	(2)2,407	(2)2,613	(2)20,025	(2)10,763	35,859

Footnotes:

(1) Amounts lower than NIS 1 million.

(2) Reclassified, see Note 12 B (4) to the condensed financial statements.

DEVELOPMENTS IN THE SEGMENT

Sale of DBLA. For details regarding the examination of the possibility of the sale of DBLA, see Note 18 to the condensed financial statements.

Agreement between the Swiss Authorities and the U.S. Department of Justice. For details, see Note 17 to the condensed financial statements.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS

Exposure restriction with regard to overseas extensions. As of March 31, 2014 the calculated rate of the Bank's exposure with respect to overseas offices was 19.72% of the total risk assets, as compared with 20.59% on December 31, 2013. 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. The Bank reviews developments in the calculated rate of exposure regarding its activity at the overseas extensions.

New regulations regarding the supervision of the British Regulator over branches of foreign banks in England and the licensing of their operations. In February 2014, the Prudential Regulation Authority of the Bank of England (the PRA) issued a draft guideline paper clarifying and detailing the parameters and requirements of the PRA for the licensing of operation in England of branches of foreign banks (or their subsidiaries), in England (both of existing branches and of new branches seeking license to operate). The aim of the new regulation, as seen from the draft, is an examination of the extent of the influence that foreign banks might have on the stability of the financial market in England, and the strengthening of supervision on these operations.

For further details regarding the "International Operations", see the 2013 Annual Report (pp. 120-125).

EXPOSURE TO RISKS AND RISK MANAGEMENT

RISK PROFILE OF THE DISCOUNT GROUP

For details regarding the risk profile of the Discount Group, see the 2013 Annual Report (pp. 125-129).
For details regarding Risk Management Principles and Tools, and Corporate Governance for risk management, see the 2013 Annual Report (pp. 129-135)

BASEL AND THE REGULATORY CAPITAL REQUIREMENTS

DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL

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 report for the first quarter of 2014 (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.
For details regarding Basel III, see the 2013 Annual Report (pp. 138-139).

REGULATORY FRAMEWORK FOR RISK MANAGEMENT

DRAFTS AND INSTRUCTIONS PUBLISHED DURING THE FIRST THREE MONTHS OF 2014

Draft instructions in the matter of credit risk management – see below.

Draft Proper Conduct of Banking Business Directive in the matter of preparations for the implementation of the Basel III instructions regarding liquidity – see below.

Draft amendment of Proper Conduct of Banking Business Directive No. 355 in the matter of business continuity risk management – see below.

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. For general details and for qualitative disclosure regarding credit risk management, see the 2013 Annual Report (pp. 141-148).

Draft amendment of Proper Conduct of Banking Business Directive No. 311 in the matter of "credit risk management". On April 30, 2014, the Supervisor of Banks published a draft amendment of the Directive, according to which, credit control requirements would be integrated into the Directive, and Proper Conduct of Banking Business Directive No. 319 would be abolished. The emphasis laid in the Directive was shifted from technical quantitative indices to qualitative requirements and to products required from the operation of the credit control function. According to the draft, credit control will assist in forming across-the-board conclusions in respect of credit granting processes, and in supervising and monitoring the principal risk centers existing in the various lines of operation. In addition, credit control has to verify that the subsidiary companies have in operation a unit of a professional level. According to the draft, the amendment shall take effect as from January 1, 2015 and thereafter.

CREDIT RISK MITIGATION

For details regarding qualitative disclosure regarding credit risk mitigation, see the 2013 Annual Report (pp. 149-150).
A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 4, the information included therein is presented herewith by way of reference.

ADDITIONAL DISCLOSURES

QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK

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

	March 31 2014	Average in 2014[1]	March 31 2013	Average in 2013[1]	December 31, 2013	Average in 2013[1]
	in NIS millions					
Credit	151,633	150,078	147,018	148,868	149,885	149,895
Bonds	33,510	36,851	37,349	36,612	35,964	37,324
Others[2]	9,173	8,398	7,823	7,637	8,282	8,054
Guarantees and other liabilities on account of clients[3]	58,199	58,310	59,043	59,467	57,706	58,649
Transactions in derivative financial instruments[4]	2,042	1,914	1,536	1,552	1,875	1,819
Total	**254,557**	**255,551**	**252,769**	**254,136**	**253,712**	**255,741**

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).

A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", items 1-3, and the information included therein is presented herewith by way of reference.

GENERAL DISCLOSURE REGARDING EXPOSURE RELATED TO CREDIT RISK OF A COUNTERPARTY

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction. For further details see the 2013 Annual Report (pp. 151-152). 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

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 the 2013 Annual Report (p. 152).

Note 8 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. The Annex to the Report of the Board of Directors, forming an integral part thereof (Part C, Item 1), contains further details of the data presented in the said Part B of the Note.

SECURITIZATION EXPOSURE

IDB New York invests in several types of securitized securities, in marketable mortgage backed securities (CMBS), in securities of the "Trust Preferred CDO" type and residential mortgage backed securities (RMBS). For additional details, see the 2013 Annual Report (pp. 152-153), for further details, see Note 2 to the condensed 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 economic recovery in the Eurozone continues and covers most member countries. The purchase manager indices indicate expansion of the economies concurrently with improvement in the consumer confidence indices. Despite this recovery, the inflation environment in the Eurozone remained at a low level, with the annual inflation rate amounting to 0.7%. The recovery of the Eurozone economies supported the continuing decline in returns on government bonds of the peripheral countries, and the governments of Greece and Portugal raised funds through the issue on the market of government bonds, for the first time since the bailout schemes.

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

For details regarding the manner of managing credit risk applying to foreign financial institutions, see the 2013 Annual Report (pp. 153-154).

Credit exposure to foreign financial institutions. The Bank’s exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 72% of the exposure as of March 31, 2014, is to financial institutions rated "A-" rating or higher.

The states in respect of which the Bank has exposure as stated above as of March 31, 2014, include, inter-alia, the United States, Great Britain, Germany and Switzerland. No losses in respect of impairment of securities have been included in respect of the exposure to financial institutions in the reported period.

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

	Balance sheet credit risk[2][4][5]	Present off balance sheet credit risk[3][4]	Present credit exposure[4]
	In NIS millions		
	As at March 31, 2014		
Present credit exposure to foreign financial institutions[6]			
External credit rating[7]			
AAA to AA-	2,037	285	2,322
A+ to A-	4,923	189	5,112
BBB+ to BBB-	2,247	16	2,263
BB+ to B-	395	1	396
Not rated[8]	157	101	258
Total present credit exposure to foreign financial institutions	**9,759**	**592**	**10,351**
Of which credit exposure to foreign financial institutions:			
In the USA	2,944	59	3,003
Balance of problematic bonds	138	-	138
	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

Notes:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
(2) Deposits with banks, credit to the public, investment in bonds, securities, borrowed or purchased under resale agreements and other assets in respect of derivative instruments.
(3) Mainly guarantees, including guarantees securing third party indebtedness.
(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 8 to the condensed financial statements.
(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 2 to the condensed financial statements).
(7) According to Moody's rating, and in its 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 March 31, 2014 and December 31, 2013 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions in indebtedness of a single borrower and of a group of borrowers", namely, variable percentage of the outstanding balance of a future transaction) in the amount of NIS 82 million and NIS 283 million respectively.

CREDIT RISK IN HOUSING LOANS

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

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demands and the negative real term interest. For details regarding measures taken by the Group, in order to tighten the control over credit in this area, see the 2013 Annual Report (p. 156).

The volume of the Group's housing loan portfolio as of March 31, 2014, amounted to NIS 20,310 million (December 31, 2013 - NIS 20,401 million).

Following are data regarding certain risk characteristics of the Group's housing loans portfolio:

	March 31, 2014	December 31, 2013
	%	%
Rate of housing loans financing over 75% of the value of the Property	9.5	11.1
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	18.3	17.3
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[1]	64.7	63.7

Footnote:

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

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

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.

As of March 31, 2014, the Bank has no one borrower group the indebtedness of which reaches the said level.

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 investment in securities by each one of the agencies does not reach the said level. For details regarding the said investments of the Bank, see below Schedule "D" to the Management Review.

CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

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, this, in order to monitor the risks inherent in such financing.

For additional details regarding credit risks in respect of leveraged finance, see the 2013 Annual Report (pp. 157-158). For additional details in respect of this matter, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "C", item 2).

MANAGEMENT OF MARKET RISKS

Market risk is the risk of impairment of the Bank's equity and profitability stemming from changes in financial markets which have an effect on the Group's assets or liabilities: interest rates, foreign exchange rates, inflation, prices of securities, product prices, the fluctuations in these parameters and in other economic indices.
For general details, see the 2013 Annual Report (pp. 158-161).
For details regarding Proper Conduct of Banking Business Directive No. 333 in the matter of "interest risk management" see the 2013 Annual Report (p. 158).

QUANTITATIVE DISCLOSURE

(1) BASE RISK EXPOSURE

The exposure to base risk is reflected in the loss which may incur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and liabilities, including the effect of forward transactions and the effect of options embedded in the base exposure.
For details regarding base exposure, see the 2013 Annual Report (pp. 161-162).

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

		First quarter of 2014				2013			
		Range of exposure							
Segment	Limitation	Period end	from	to	average	Year end	from	to	average
CPI linked	(25%)-50%	15.9%	9.0%	22.3%	15.7%	8.5%	4.5%	29.0%	19.3%
Foreign currency	15%-40%	26.7%	25.1%	27.3%	26.2%	25.1%	25.1%	28.1%	26.8%

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the Bank's equity as of March 31, 2014.

	The Bank's capital sensitivity of changes in exchange rates			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	147	74	(83)	(170)
EUR	10	6	(9)	(17)
Other Foreign Currencies	(4)	(2)	2	5

(2) INTEREST RISK EXPOSURE

A. General

Interest risk is the risk of impairment of the Bank's capital and earnings as a result of changes in market interest rates. The risk derives from the exposure to future changes in interest rates and their possible effect on the present value of assets and liabilities including certain economic amendments. For further details, see the 2013 Annual Report (pp. 162-166).
The data presented in item "B" hereunder, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the computation of Schedule "B" to the Management Review, hereunder.

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

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

Fair value of financial instruments. For details regarding the fair value of financial instruments, see the 2013 Annual Report (pp. 162-164). For details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 21 to the financial statements as of December 31, 2013 (pp. 481-483).

Following are certain updates as of March 31, 2014:

- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 28 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 1 million (compared to NIS 24 million and NIS 1 million, respectively, as of December 31, 2013);
- 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 123 million (compared to NIS 112 million as at December 31, 2013);
- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.78 years on March 31, 2014, compared to 3.40 years, taking into consideration the forecast for early redemptions (compared to 3.74 years and 3.35 years, respectively, as of December 31, 2013);
- 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 20 million (compared to NIS 24 million at December 31, 2013);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.34 years on March 31, 2014, compared to 3.17 years, taking into consideration the forecast for early redemption (compared to 3.28 years and 3.10 years, respectively, as of December 31, 2013).

Hybrid financial instruments. For details regarding hybrid financial instruments, see the 2013 Annual Report (pp. 162-163). As of March 31, 2014, the effect of treatment of the option and of the host instrument as two separate instruments was not material.

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

	Israeli currency		Foreign currency[2]			
	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions					
	March 31, 2014					
Financial assets[1]	108,835	25,060	46,454	4,251	4,096	188,696
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	91,588	2,840	54,151	16,367	10,803	175,749
Financial liabilities[1]	(95,977)	(21,244)	(51,406)	(8,443)	(4,707)	(181,777)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(100,109)	(6,432)	(47,295)	(12,211)	(10,233)	(176,280)
Net fair value of financial instruments	**4,337**	**224**	**1,904**	**(36)**	**(41)**	**6,388**
	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**

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

	Net fair value of financial instruments, after the effect of changes in interest rate[4]							Change in fair value	
	Israeli currency		Foreign currency[2]						
Change in interest rate	Non-linked	CPI linked	US dollar	Euro	Other	Offsetting effects	Total	Total	Total
	in NIS millions								in %
	March 31, 2014								
Immediate parallel increase of 1%	4,076	159	1,377	(32)	(40)	(1)	5,539	(849)	(13%)
Immediate parallel increase of 0.1%	4,311	218	1,900	(37)	(41)	-	6,351	(37)	(1%)
Immediate parallel decrease of 1%	4,693	301	2,330	(32)	(39)	-	7,253	865	14%
	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%

(1) Not including balances of balance sheet derivative financial instruments and fair value of off-balance sheet financial instruments.
(2) Including Israeli currency linked to foreign currency.
(3) Amounts receivable (payable) in respect of derivative financial instruments, discounted at interest rates used to compute the fair value presented in Note 9 to the condensed financial statements.
(4) The net fair value of financial instruments presented in each linkage segment, is the net fair value in the segment, under the assumption that the change noted in all interest rates applying to the segment has in fact occurred. The total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) under the assumption that the change noted in all interest rates applying to all segments has in fact occurred.

C. Data used for the management of interest rate risk

The 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 "B" 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 (for additional details, see 2013 Annual Report, pp. 164-166).

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

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			March 31, 2014		
An increase of 100BP in interest rates	(93)	(27)	(197)	2	(315)
A decrease of 100BP in interest rates	105	29	15	(5)	145
			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

The limitations determined by the Board for interest risk exposure in the various linkage segments are expressed in terms of maximum damage to economic capital resulting from concurrent movements in the yield curve of 1% in each segment.

The 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 the first quarter of 2014, the Bank and the Group complied with the determined exposure limits.

In addition to the scenario of a parallel shift in the interest graphs, the effect of non-parallel changes in the various interest graphs is also being examined. No deviation was recorded in the first quarter of 2014 from these limitations.

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

For details regarding the risks inherent in the banking book, see the 2013 Annual Report (p. 164).

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

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			March 31, 2014		
An increase of 100BP in interest rates	(100)	(30)	(194)	20	(303)
A decrease of 100BP in interest rates	119	33	8	(18)	142
			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

(3) THE VALUE AT RISK (VAR)

For details regarding the VaR model, see the 2013 Annual Report (pp. 166-167).

The Board of Directors determined a limitation according to which the VaR of the Group (at a parametric method, for a range of ten days and at a confidence level of 99%) should not exceed 4% of the equity. No deviations from this limitation were recorded in the first quarter of 2014.

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

The limitations on exposure of the Group in terms of erosion in value under stress tests are based on macro-economic evaluations as regards the probability of one or another stress test.
In the first quarter of 2014 no deviations from these limitations were recorded. For further details, see the 2013 Annual Report (p. 167).

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

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standard approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. For further details, see the 2013 Annual Report (p. 168).

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

	Capital allocation as of	
	March 31, 2014(2)	December 31, 2013(1)
	In NIS millions	
The Bank:		
Interest rate risk*	261	171
Foreign exchange rate risk	45	32
Share risk	3	2
Option risk	67	28
Total for the Banking Group	**376**	**233**
Allocation in risk asset terms	3,005	2,588

* Including the specific risk in the amount of NIS 6.9 million and NIS 8.6 million in the First Quarter 2014 and Year 2013, respectively.
Footnotes:
(1) The minimum capital requirement in respect of the first pillar instructions is 8% with the addition of 1% in respect of the second pillar instructions.
(2) The minimum capital requirement is 12.5% as from January 1, 2015.

(6) 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 to the number of transactions and the overall volume and as regards the maximum loss in extreme scenarios and in moderate scenarios. The boards of directors of the principal banking subsidiaries have also set limitations on the activity in options. No deviations were recorded in the first quarter of 2014 from the limitations set by the Board of Directors.

(7) ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's Board of Directors and the Board of Directors of its main subsidiaries have determined the mode of operation in derivative financial instruments, maximum volume of activity and the range of financial instruments in which the Bank may engage (whether on behalf of its customers of or its own account).
The exposure created by this operation, both in respect to linkage base and to interest, is included in the framework of limitations set by the Board of Directors with respect to exposure to linkage base and interest and the 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.
No deviations from the said limitations were recorded in the first quarter of 2014.

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

	March 31, 2014	December 31, 2013
	in NIS millions	
Hedging derivatives	2,013	1,869
ALM derivatives	188,018	183,347
Other derivatives	19,236	36,173
Credit derivatives and SPOT foreign currency swap contracts	1,756	2,078
Total	**211,023**	**223,467**

For further details regarding management and measurement of market risks, see the 2013 Annual Report (pp. 158-170).

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. Whereas this is a situation of uncertainty in which a liquidity risk always exists, the Bank has determined maximum exposure limitations as regards the liquidity risk.

In January 2014, the Supervisor of Banks published a translation of the Basel III instructions – liquidity coverage ratio and monitoring tools for liquidity management, for implementation as from January 1, 2015. The Bank, together with the Group companies, prepared a quantitative assessment of the liquidity coverage ratio (LCR), as required by the Supervisor of Banks (QIS), and is preparing for the implementation of the guidelines.

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.

For further details regarding the management of the liquidity risk, see the 2013 Annual Report (pp. 171-172).

OPERATIONAL RISKS

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

For additional details regarding Operational risks, see the 2013 Annual Report (pp. 172-176).

PREPARATIONS BY THE BANK FOR CONTINUED BUSINESS OPERATIONS

Draft amendment of Proper Conduct of Banking Business Directive No. 355 in the matter of "business continuity management". Further to Proper Conduct of Banking Business Directive No. 355, published in December 2013, and following a survey regarding the safeguarding of critical locations, conducted at the banking industry, the Supervisor of Banks issued on April 30, 2014, a Draft amendment of Proper Conduct of Banking Business Directive No. 355, which includes guidelines intended to regulate the subject of safeguarding of critical locations, including: a requirement for the safeguarding of a principal or alternative location against the consequences of a conventional war; a requirement to safeguard a principal critical location against earthquake damage; permission for a banking subsidiary to rely on the critical location of the parent company.

According to the draft, the new guideline will become effective at date of approval of the amendment.

For details regarding environmental risks, see the 2013 Annual Report (p. 178).

COMPLIANCE RISKS

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.
For additional details regarding compliance risks, see the 2013 Annual Report (pp. 179-182).

For details regarding IT risks, see the 2013 Annual Report (pp. 176-178).
For details regarding legal risks and regulation risks, see the 2013 Annual Report (p. 179).

EFFECT OF EXTERNAL FACTORS

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY AND AROUND THE WORLD IN THE FIRST THREE MONTHS OF 2014

DEVELOPMENTS IN THE GLOBAL ECONOMY

General. The global economy continued to expand in the first quarter of 2014 though at a more moderate rate as compared with the last quarter of 2013. This, through the continuing differentiation in the pace of recovery between the leading economic blocks.

The U.S. economy expanded during the reviewed period by a moderate rate of 0.1%, compared to 2.6% in the previous quarter and 1.1% in the corresponding quarter in 2013. It is noted that a part of the slowdown is attributed to extreme weather conditions since the beginning of the year, which impaired economic activity. Despite the moderate growth, the employment market continued in its recovery, both as regards industry and private consumption. On the other hand, the real estate market somewhat lingered behind.

The slow recovery in the Eurozone continued, the product expanding in the first quarter by 0.8%, similar to the fourth quarter of 2013, and compared to a similar regression in the corresponding quarter last year. Notwithstanding, the rate of unemployment in the Eurozone remained at a high level of 11.8%.

The trend as regards expansion of the BRIC economies in the first quarter of the year was not uniform. While in China and Russia the rate of growth slowed down (as compared with both the previous quarter and the corresponding quarter in 2013), China recording a growth rate of 7.4% (the lowest rate since 2009), Brazil and India recorded acceleration.

In the meantime, the inflationary environment in the world during the first quarter continued to be moderate. In particular, a slowdown in inflation was recorded in the Eurozone and in China. In the U.S., the inflation rate somewhat accelerated compared with the last quarter of 2013, though the rate of price increases was below the targeted rate of the Central Bank. The slow economic recovery, alongside the moderate inflation rate, supported the continuing expansionary monetary policies in most of the developed economies around the world. The new Governor of the FED in the United States has noted that the overall developments in the employment market (and not only the unemployment data) would be considered when deciding 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 previous Governor, including the reduction in purchases, thus allaying market concerns regarding a change in the monetary policy. Concurrently, the FED began a plan for the reduction of the quantitative expansion in a monthly volume of US$10 billion. In the Eurozone, the probability for the lowering of the interest rate or for a quantitative expansion has grown, on the background of the low rate of inflation and the slow economic recovery.

The reviewed period was typified by growing concerns for 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 the growing tension with its Russian neighbor. These concerns were reflected in the steep devaluation of the local currencies and in falling prices on the capital markets of the developing countries. As an immediate reaction to the crisis, and in order to stabilize the exchange rate, several central banks have increased the interest rates, including Turkey, Russia, India, Brazil and South Africa.

Financial markets. Trading on world 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 speeches of the Governor of the FED on the other hand, alongside the continuing recovery in the Eurozone.

Following are the changes in selected share indices recorded during the first three months of the years 2014 and 2013:

	Change during the first quarter of	
Index	2014	2013
500 S&P	1.3%	10.0%
DAX	-	2.4%
MSCI Emerging Markets	(0.8%)	(1.9%)

The returns on U.S. government bonds for ten years were mostly affected by the transition to safe assets, on the background of the growing uncertainty in the developing markets, the mixed indicators for economic activity and the speeches of the Governor of the FED. In Germany, long-term returns were affected in addition by estimations for further monetary relief in the Eurozone.

Following are the returns on government bonds:

Return on bonds for 10 years	March 31, 2014	December 31, 2013
U.S.A.	2.7%	3.0%
Germany	1.57%	1.92%

Volatility characterized the trading in the U.S. dollar against the Euro, when in total for the period it recorded a marginal strengthening. The said strengthening reflected, among other things, estimates as to the rise in interest rates in the U.S. on the one hand and expectations for a further monetary relief in the Eurozone, on the other hand. In contrast, the U.S. dollar weakened against the Japanese Yen and the British pound.

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

	Change during the first quarter of	
Exchange rate	2014	2013
EUR	0.1%	3.0%
JPY	(2.1%)	8.8%
GBP	(0.7%)	6.9%

The international commodities index GSCI was characterized by volatility, however in total for the period it rose by 2.6%. Among the components of this index, the prices of agricultural products recorded a steep increase (16.4%). This may be the result of the severe weather in the U.S. at the end of 2013 and the beginning of 2014. On the other hand, the prices of industrial metals dropped while energy products prices recorded a marginal decline.

Following are changes in selected commodities indexes:

	Change during the first quarter of	
	2014	2013
The commodities index - GSCI	2.6%	1.3%
The oil price (BRENT)	(2.7%)	(1.0%)
The oil price (WTI)	3.2%	5.9%
Gold	6.8%	(4.7%)

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL

The product grew in the first quarter of 2014 at an annual rate of 2.1% (the lowest rate since 2009), this compared to a growth of 2.9% in the last quarter of 2013, and 2.3% in the corresponding quarter last year. The growth rate of the business product slowed down to 0.4% (2.1% and 2.8% in the preceding quarter and in the corresponding quarter in 2013, respectively).

The slow growth in the first quarter reflected a decline in private consumption (2%), a decline in investments in fixed assets (14%) and a standstill in public consumption. The export of goods and services expanded by 6.3% and concurrently, the import of goods and services (excluding defense imports) grew by 5.9%.

The average number of positions in the first quarter of the year was 1.1% higher (additional 38 thousand positions) compared to the last quarter of 2013. This is the fifth consecutive quarter showing expansion. Albeit, the unemployment rate was similar to that of the fourth quarter of 2013 (5.8%), however the rate of participation rose from 63.7% to 64.1%.

DEVELOPMENTS IN ECONOMIC SECTORS

Average industrial production in the months of January-February of the year was higher by 1.3%, this compared to the monthly average in the last quarter of 2013[1]. A growth of 2.3% was recorded compared to the first quarter of 2013. The average turnover of the wholesale and retail trade in January and February was 2% higher than the average monthly turnover in the last quarter of 2013. The said growth was recorded in the turnover of the wholesale trade, while turnover of the retail trade recorded a standstill.

DEVELOPMENTS IN FOREIGN ACTIVITIES OF THE ISRAELI ECONOMY

The first quarter of the year recorded positive investments by foreign residents in Israel government bonds on the Tel Aviv Stock Exchange for the second consecutive quarter, though not of a considerable amount (US$30 million). Concurrently, foreigners purchased government bonds traded abroad in an amount of US$1.1 billion (following sales in the last quarter of 2013). The activity of foreigners in the short-term loan (MAKAM) was insignificant.

Investment in equities on the Tel Aviv Stock Exchange amounted in the first quarter to US$230 million (a similar amount to that of the last quarter of 2013). Concurrently, investment abroad in Israeli equities amounted to US$340 million (compared to US$800 million in the last quarter of 2013).

The direct investments of foreign residents (through banks) amounted to NIS 2.1 billion, an increase of 11% compared to the last quarter of 2013. About one half of these investments were made in March.

The financial investments abroad by Israeli residents amounted in the first quarter to US$4.4 billion, an increase of 84% compared to the previous quarter. Differentiating between the investment channels, 56% were invested in equities and 44% were invested in bonds.

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[1] The most updated data available at the time of submitting the report to print.

Following are the changes recorded in investments of the Israeli economy abroad:

	First quarter of		
Investments in Israel by foreign residents	2014	2013	Change
	US$ billion		
Total direct investments through banks	2.1	1.9	10.6%
Total financial investments	1.4	1.0	39.5%
Of which: Government bonds and MAKAM	1.1	0.1	–
Shares	0.57	1.24	(54.1%)
	First quarter of		
Investments abroad by Israeli residents	2014	2013	Change
	US$ billion		
Total direct investments (through banks in Israel)	–	(0.27)	–
Total financial investments	4.4	2.4	85.4%

DEVELOPMENTS IN INFLATION AND FOREIGN EXCHANGE RATES

The shekel continued in its strong position during the reviewed period despite the lowering of the interest rate by the Bank of Israel and despite the massive purchases of foreign currency. In total for the period, the shekel weakened at a negligible rate of 0.5% as against the U.S. dollar and by 0.6% as against the Euro.

The inflationary environment in the reviewed period continued to be moderate. The CPI fell during the first quarter of the year by 0.5% compared to stability in the corresponding period last year. The annual inflation rate in March amounted to 1.3%, when 0.8% of this rise derived from the housing component (reflecting the cost of housing rentals).

FISCAL AND MONETARY POLICY

Fiscal policy. A budgetary surplus of NIS 0.1 billion was measured in the first quarter of the year, compared to a budgetary deficit of NIS 4.7 billion in the corresponding period last year. The cumulative deficit in the twelve months ended in March amounted to 2.65% of the product, compared to 4.2% in March of 2013. It is further noted that surplus collection was recorded in the first quarter compared with the forecast of NIS 2.6 billion (net of nonrecurring collection).

Monetary policy. The monetary policy continued to be expansionary, the interest rate remaining at the level of 1% in the months of January and February, while it was unexpectedly lowered in March to a level of 0.75% (remaining at that level in April). Among the factors supporting the decision to lower the interest rate were concerns with respect to a low rate of inflation, the strengthening of the Shekel and a slowdown in economic activity.

CAPITAL MARKET

The reviewed period was mostly typified by an upward trend in most of the leading equities indices on the Tel Aviv Stock Exchange. This, among other things, on the background of the low interest environment in Israel and the low returns on bonds, which led to a shift to more risky assets.

Following are the changes recorded in selected share indices during the first three months of 2013 and 2014:

	Change during the first quarter of	
Index	2014	2013
General share index	9.0%	6.4%
TA 25	5.5%	4.4%
TA 100	6.2%	4.9%
TA banks	(0.4%)	1.8%
Blutech 50	4.6%	(2.3%)
Real-estate 15	2.9%	8.4%

On the background of the said developments, the market value of equities and convertibles (excluding indices products) rose by 8.1% compared with the end of 2013, and at the end of March reached an amount of NIS 763 billion. The daily trade turnovers of equities and convertibles amounted in the first quarter of 2014 to NIS 1.3 billion on an average, compared to NIS 1.13 billion in the corresponding period last year.

Trade in Israeli government bonds showed a trend of declining returns. The said trend was affected by the lowering of the interest rate in Israel (and expectations for the continued expansionary monetary policy), the trend showed by U.S. government bonds, the improvement in the fiscal situation and the continued decline in the CDS premium.

Trading in corporate bonds derived mostly from the trend of trading in government bonds, alongside the increase in demand for riskier assets, on the background of the low returns on government bonds. It is noted that the return spread between corporate bonds and government bonds remained practically unchanged.

	Change during the first quarter of	
Index	2014	2013
General bonds	2.1%	0.6%
General Government bonds	2.0%	(0.2%)
Shekel Government bonds	1.9%	0.4%
Linked Government bonds	2.0%	(0.9%)
General Corporate bonds	2.4%	1.9%
Linked Corporate bonds	2.4%	1.9%
Shekel Tel-Bond	2.2%	1.4%

The raising of capital through the issue of corporate bonds amounted in the first quarter of 2014 to NIS 9.3 billion, a decline of 14% compared with the corresponding period last year. Of this amount, issue of bonds to institutional bodies amounted to NIS 3 billion, compared to NIS 0.7 billion in the first quarter of 2013.

The daily trading turnovers in bonds amounted to NIS 3.9 billion on an average, a decline of 7% as compared with the first quarter last year. The daily trading turnover in short-term loans (MAKAM) also declined by 15% amounting to NIS 580 million on an average.

THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of the financial assets in the hands of the public portfolio increased during the first quarter of 2014 by 2.5% amounting at the end of March to NIS 3.04 trillion. The said increase in the value of the portfolio stemmed mainly from the value of the equities portfolio (both in Israel and abroad), a combination of a price increase on the market exchange and a flow of net investments.

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

	March 31, 2014	December 31, 2013
Shares	25.9%	24.6%
Non-linked assets	33.0%	33.7%
CPI linked assets	30.9%	31.5%
Foreign currency linked assets	10.2%	10.3%

PRINCIPAL ECONOMIC DEVELOPMENTS IN APRIL AND MAY 2014[1]

In April, the International Monetary Fund updated downwards (by 0.1%) the global economic growth forecast and the global trade forecast (of January) to a level of 3.6% and 4.3%, respectively. The updating stemmed mostly from a downwards updating of the growth forecast for the developing economies.

Indicators of economic activity in the U.S. and in the Eurozone were mixed with a leaning towards positive indicators, and in particular, the data for the U.S. reflected recovery from the severe winter effects. The data published for China, indicated a moderation in economic activity. Lull was recorded in the reviewed period in the developing countries, which stood at the center of concerns in the first quarter, with the exception of the Ukraine and Russia, where the geo-political crisis has escalated.

The inflationary environment in the U.S. continued to be moderate, though showing certain acceleration. In the Eurozone on the background of the low inflation rate and concerns regarding deflation alongside the strengthening of the Euro, the Governor of the ECB announced at the beginning of May, that in its coming meeting in June, the ECB might adopt expansionary measures.

Trading on the global equities markets was conducted mostly on the background of mixed data regarding economic activity in the U.S. and in the Eurozone and regarding the low interest environment supporting the economic activity. In total for the period, the S&P 500 Index and the German DAX Index rose by approx. 0.3%. The share index of the developing markets rose by 3.8%

The trend of the U.S. dollar exchange rate as against the leading currencies was not uniform. In particular, the U.S. dollar lost ground against the British Pound (by 0.9%) and against the Japanese Yen (by 1.9%), and on the other hand, it gained ground against the Euro (by 0.4%). It is noted that the said strengthening against the Euro was recorded following the announcement of the Governor of the ECB at the beginning of May.

The commodities index GSCI recorded an increase of 0.6% in the reviewed period. The price of oil (of the WTI type) rose by 0.1%, the price of Brent oil rose by 2%.The long-term U.S. bonds recorded volatility, when in total for the period, a drop in return was recorded. The said drop partly reflected demand for safer assets, on the background of the geo-political tension in Eastern Europe. A decline in return was recorded also with respect to the long-term German bonds, this in addition to the above, on the background of the anticipated quantitative expansion in the Eurozone.

Mixed economic activity indicators were recorded in Israel in the reviewed period, with an inclination towards the weaker ones and in particular the export data. The integrated index of the Bank of Israel rose in April by 0.1% (a certain moderation compared with prior months). It is noted that at the end of March, the Government announced measures for dealing with housing property prices. These measures include a zero rate of VAT on the purchase of new residential units by qualified buyers, and a new target price for new residential units. The said measures have created uncertainty in the real estate market.

Inflation in April was low in relation to earlier assessments, amounting to 0.1%. The cumulative inflation rate for the twelve months ended in April amounted to 1%, the lower limit of the targeted inflation range. Residential units prices (which are not included in the CPI) continued to rise at the rate of 7%.

Monetary policy continued to be expansionary, the interest rate remaining at a level of 0.75% in the months of April and May. Among the factors supporting the decision not to change the interest rate were the decline in fear of a low rate of inflation and the continued expansion in economic activity.

In the reviewed period, the trade of the shekel against the U.S. dollar was characterized by strengthening of the shekel, when in

1 All data relate to the period from April 1, 2013 and until May 19, 2014.

total for the period it strengthened by 1.1%. Against the Euro the shekel strengthened by 1.7%. The Bank of Israel continued to purchase foreign currency with the aim of confronting the strengthening of the shekel.
A downward trend was recorded in share prices on the Tel Aviv Stock Exchange, when in total for the period, the TA 25 Index and the TA 100 Index dropped by a rate of 1.3% and 2.7%, respectively. A steep decline in returns was recorded in respect of long-term non-linked government bonds with a decline in the return spread as against the U.S. long-term bonds. It is noted that acceleration was recorded in the decline in returns following the CPI for April and the growth data for the first quarter. At the same time, there was a rise in market expectations for a lowering of the interest rate. It is further noted that the returns on the Tel-bond 60 Index fell during the period with a slight decline in spreads against government bonds.

LEGISLATION AND SUPERVISION

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

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

PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

The Struggle against the Nuclear Program of Iran Regulations (Issue of notices and work procedures), 2013. The Regulations were published in the Official Gazette on March 31, 2014, and entered into effect on April 10, 2014. With this entry into effect, the relevant parts of the Struggle against the Nuclear Program of Iran Act, 2012, also entered into effect. For additional details, see the 2013 annual report (p. 195).

ANTITRUST

EXEMPTION FROM A BINDING ARRANGEMENT AS REGARDS THE HOLDINGS AND JOINT OPERATIONS WITHIN THE FRAMEWORK OF AUTOMATIC BANK SERVICES AND THE CENTRAL BANKING CLEARING

On May 5, 2014, Automatic Bank Services (ABS) and the banks applied to the Antitrust Commissioner with a request to amend the terms of the exemption from approval of a binding arrangement granted on August 26, 2013, so that an additional field of operation would be added to the definition of fields of activity of ABS – namely, assisting services for improving the protection against cyber attacks. The request follows a decision made recently, in coordination with Bank of Israel, to establish a cyber center by ABS, with a view of assisting the banking industry in Israel in facing cyber threats.

VARIOUS LEGISLATION MATTERS

THE UNIFORM CONTRACTS BILL (AMENDMENT NO. 4), 2010

The Knesset discussed the Bill on February 25, 2014, as part of the preparations for its second and third readings. The proposed principal changes are:

- Determination of the following terms as discriminatory: a term which grants the supplier a remedy that is not granted to him by law, or that the addition of which is not permitted by law, or an agreed compensation in an unreasonable amount; a term stating that the customer is required to confirm that he has read the contract, or declare a commitment or awareness of a certain matter;
- Determination that the approval of a uniform contract by a Court of Law shall create only a *prima facie* presumption that the contract is not discriminatory;
- Retroactive application of the Court ruling in connection with a discriminatory term, so that it will also apply to contracts entered into prior to the date of the determination, as well as its application to "substantially identical" contracts of that supplier.

U.S. LEGISLATION

Section 165 - Enhanced Prudential Standards Final Rule. The U.S. Federal Bank issued in February 2014 instructions regarding the implementation of enhanced requirements relating to the supervision over bank holding corporations in the U.S., as well as over foreign banks operating in the U.S. including, among other things, enhanced requirements as to liquidity, equity capital and risk management. The Bank is examining the implications of the said legislation upon the Bank and upon IDB New York.

PUBLIC COMMITTEES

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

THE DIRECTIVES OF THE SUPERVISOR OF BANKS

AMENDMENT OF PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 453 - THIRD PARTY GUARANTEES TO A BANKING CORPORATION

On April 23, 2014 the Supervisor of Banks issued an amendment of Proper Conduct of Banking Business Directive No. 453 in the matter of third party guarantees to a banking corporation according to which 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. The amendment will take effect on September 10, 2014.

ADVANCING THE DATES FOR SUBMISSION OF ANNUAL AND QUARTERLY REPORTS

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

The advancement of the dates will be applied gradually, so that for example: the quarterly reports in 2014 shall be published within fifty-five days from balance sheet date and the annual report for 2014 shall be published until March 10, 2015.

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.

DRAFT PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 422 - THE OPENING OF A CREDIT BALANCE CURRENT ACCOUNT AND ITS MANAGEMENT

The draft Directive was issued by the Supervisor of Banks on March 26, 2014.
Section 2(a)(2) of the Banking Act (Customer service), 1981, states that the corporation shall not refuse on unreasonable grounds, to provide certain services to a customer opening a credit balance current account. The Directive is intended to clarify which are the services constituting an integral part of account management, and states that allowing access to information about the account via the Internet is included as part of such services. The draft also states which are the cases in which a claim of a "reasonable refusal" would not be admitted, and numbers among these cases: where the customer is defined as "under limitation", or "under severe limitation", or "under special limitation", the customer is a declared bankrupt, the accounts of the customer are impounded, a customer against whom legal proceedings instituted by another bank are being conducted or have been conducted in the past, on grounds of debt collection.

For further details regarding "Legislation and Supervision", see the 2013 Annual Report (pp. 183-202).

ADDITIONAL ISSUES IN THE DESCRIPTION OF THE GROUP

MAIN INVESTEE COMPANIES

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 150 million in the first three months of 2014, compared to NIS 213 million in the corresponding period last year, and an income of NIS 586 million in all of 2013.
Following are the major developments in the Bank's main investee companies.

DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. ("Bancorp") is a wholly owned subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York). IDB New York is the largest Israeli bank operating overseas. The data presented hereunder in this section have been taken from Bancorp's financial statements.

	In US$ millions		
Balance sheet items	March 31, 2014	December 31, 2013	Change in %
Total assets	9,743	9,604	1.4
Total credit	4,555	4,448	2.4
Total deposits	6,599	6,474	1.9
Total equity	767	794	(3.4)
Ratio of total capital to risk assets	13.3%	13.9%	
Income statement items for the first quarter of the year	**2014**	**2013**	
Net income attributed to the shareholders	13	10	30.0
Return on equity	6.9%	5.1%	

The contribution of the Bank's investment in Bancorp to the Bank's business results amounted to an income of NIS 40 million in the first three months of 2014 (after deducting a provision for tax of NIS 6 million), compared with an income of NIS 36 million (after deducting a provision for tax of NIS 10 million) in the corresponding period last year.

For details regarding investments by IDB New York in mortgage backed securities, see "Development of assets and liabilities" above and Note 2 to the condensed financial statements hereunder.

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.

The sale of holdings in DBLA. For details, see Note 18 to the condensed financial statements.

MERCANTILE DISCOUNT BANK LTD.

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

	In NIS millions		
Balance sheet items	March 31, 2014	December 31, 2013	Change in %
Total assets	27,902	28,446	(1.9)
Total credit to the public, net	17,987	17,792	1.1
Total deposits from the public	23,424	23,964	(2.3)
Total equity	1,948	1,931	0.9
Ratio of total capital to risk assets	14.7%	14.6%	
Income statement items for the first quarter of the year	**2014**	**2013**	
Net income attributed to the shareholders	51	53	(3.8)
Return on equity	10.9%	11.6%	

The decrease in income in the first three months of 2014 was affected, inter alia, from an increase of NIS 14 million in interest income; by a decrease in the amount of NIS 42 million in non-interest financing income, stemming mainly from a decrease in the amount of NIS 12 million in the gains on realization of bonds, and from a decrease in the amount of NIS 28 million in the gains on fair value adjustments of derivative financial instruments; from a decrease in the amount of NIS 36 million in credit loss expenses, explained by the collection of debts written-off in the past and the decrease in the allowances for credit losses on a group basis; and from a decrease of NIS 9 million in commission income.

Dividend. During the first quarter of 2014 Mercantile Discount Bank has distributed a dividend in the amount of NIS 45 million.

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 as of December 31, 2013 (pp. 465-466). 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 as of December 31, 2013 respectively (pp. 468-470) and Note 7, items 5.5, 5.8, 5.9 and 5.11 to the condensed financial statements, respectively.

ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of March 31, 2014, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

	In NIS millions		
Balance sheet items	March 31, 2014	December 31, 2013	Change in %
Total assets	9,483	9,589	(1.1)
Total equity	1,091	1,078	1.2
Ratio of total capital to risk assets	16.7%	16.2%	
Income statement items for the first quarter of the year	2014	2013	
Total Income	272	276	(1.4)
Net income attributed to the shareholders	33	33	-
The contribution to the Bank's business results	23	21	8.6
Return on equity	12.8%	12.9%	

The business results of ICC for the reported period were mostly affected by a decrease in sales and marketing expenses, stemming mainly from lower advertising and promotion expenses, which were partly offset by an increase in expenses for credit losses, stemming mainly from the growth in the scope of consumer credit.

Dividend. During the first quarter of 2014, ICC distributed dividends in the amount of NIS 20 million (the Bank's share is NIS 14 million).

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 as of December 31, 2013, items 12.10, 12.14, 13.3, 13.7 and 13.10 respectively (pp. 466-470) and Note 7, items 5.3, 5.7 and 5.10 to the condensed financial statements, respectively. For details regarding a lawsuit and motion to approve it as a class action suit regarding debit and pre paid cards, see Note 7, item 5.13 to the condensed 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, Note 34 to the financial statements as of December 31, 2013 (pp. 523-526) and Note 15 to the condensed financial statements.

For details regarding a police investigation and seizing of documents and computer material, see Note 34 C to the financial statements as of December 31, 2013 (p. 526).

FIRST INTERNATIONAL BANK OF ISRAEL LTD.

The First International Bank of Israel Ltd. ("FIBI") was an affiliated company of the Bank. As of March 31, 2014, the Bank held 26.45% of its share capital and voting rights. For details regarding the agreement with FIBI Holdings Ltd., regarding the Bank's ownership of shares in FIBI, which, as a result of its instructions, as from March 13, 2014 (see Note 14 to the condensed financial statements), 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 Note 6 E (1) to the financial statements as of December 31, 2013 (pp. 410-412). 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%.

	In NIS millions		
Income statement items for the first quarter of the year	2014	2013	Change in %
Net income attributed to the shareholders	120	136	(11.8)
The contribution to the Bank's business results(1)	12	66	(81.8)
Return on equity attributed to the shareholders	7.2%	8.5%	

	March 31, 2014	December 31, 2013
Ratio of total capital to risk assets	14.5%	14.8%

Footnote:

(1) 2014 – Including a provision for impairment in value of the investment in the shares of FIBI in the amount of NIS 26 million, 2013 – including an amount of NIS 42 million, update in the computation of the provision for tax in respect of the Bank's share in the income of FIBI, following receipt of updated data.

Dividend. FIBI distributed a dividend in the first quarter of 2014, in the amount of NIS 100 million (of which, the Bank's share was NIS 26 million).

On March 26, 2014, FIBI declared the distribution of a dividend in a total amount of NIS 130 million. The determining date and the ex-dividend date were April 3, 2014. The Bank's share in the said dividend amounts to NIS 34 million, to be recognized as income in the financial statements as of June 30, 2014.

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 as of December 31, 2013 (p. 413) and Note 14 to the condensed financial statements.

ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.

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

	In NIS millions		
Balance sheet items	March 31, 2014	December 31, 2013	Change in %
Total assets	983.8	1012.4	(2.8)
Total equity	251.3	228.5	10.0
Income statement items for the first quarter of the year	2014	2013	
Net income attributed to the shareholders	22.9	39.6	(42.2)
The contribution to the Bank's business results[1]	21.2	42.5	(50.1)

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

In the first three months of 2014, DCMI participated, via its subsidiary, in 11 public offerings, of which, one with underwriting, and 3 private placements amounting in total to NIS 4.1 billion and in 3 brokerage transactions. This, compared with 16 public offerings and 4 private placements amounting to NIS 3.3 billion and two brokerage transactions, in the corresponding period last year.

TAXATION

CHANGES IN THE U.S. TAX LEGISLATION

On March 13, 2014, the Government decided on promoting the process of signing an agreement between the governments of the United States and Israel for the implementation of FATCA. An agreement, as stated, has not yet been signed.

On April 6, 2014, the Supervisor of Banks issued a letter in the matter of the preparations for the implementation of the FATCA instructions, requiring the banking corporations to continue and prepare for the implementation of the instructions, disregarding whether an agreement would be signed by July 1, 2014, or not. The letter requires the appointment of an officer in charge, the establishment of a designated work team coordinating the implementation of the instructions, directly responsible to a member of Management, and the determination of policy and procedures regarding the manner of implementation of the FATCA instructions, which should be approved by the Board of Directors, while taking into consideration the Bank`s duties towards its customers and following a careful examination of the circumstances. It was further noted that the refusal to open a new account and/or provide banking services in the case of an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer for the purpose of evading the FATCA instructions, shall be considered a reasonable refusal for the purpose of the instructions of the Banking Act (Customer service). It was also recommended to adopt measures that increase awareness to the FATCA instructions and their possible implications on customers, in particular customers being financial institutions to which the FATCA instructions apply.

The Ministry of Finance informed on May 1, 2014, that an "agreement in substance" had been reached with the U.S. Treasury with respect to the implementation of the FATCA instructions. Accordingly the registration of financial institutions in Israel, may be effected until December 22, 2014 or another proximate date as will be detailed by the IRS.

The registration of the Bank and of the relevant companies in the Discount Group in the designated on-line portal of the U.S. Internal Revenue Services was completed in March 2014.
The Bank continues its preparations for the implementation of the instruction by the Group.
For further details in this matter and in the matter of taxation generally, see the 2013 annual report (pp. 214-215).

FOREIGN RESIDENT CUSTOMER ACCEPTANCE POLICY

The Bank operates in an environment of changing global regulation. As part of these changes, and among other things, greater emphasis is being put on exterritorial enforcement of reporting duties and on the payment of taxes in respect of bank accounts held outside the country of residence or of country of citizenship of the owner of the account. Therefore, in addition to the Bank complying with the provisions of the Israeli legislation, the Bank, in its operations, respects also foreign regulation, including the matter of customer compliance with tax payments applying to them as citizens or residents of foreign countries, in respect of accounts managed at the Bank.
In accordance with that stated above, and among other things, in continuation of the Bank's actions regarding the implementation of the United States FATCA instructions, the Bank`s Board of Directors has adopted a policy with respect to compliance of foreign residents with the provisions of foreign legislation regarding the payment of taxes and the reporting of accounts. This policy is designed to establish rules for the opening of bank accounts of foreign residents and for the acceptance of monies and securities in favor of foreign resident accounts, in a manner that would satisfy the Bank as regards fulfillment of the duties applying to the relevant foreign resident customers with respect to the payment of taxes and reporting their accounts, as required by the provisions of foreign legislation applying to them. The policy also states that, to the extent that the regulation in Israel and abroad with respect to foreign residents and their accounts would be updated, the Bank shall act accordingly, and that this policy would be adopted also by the Bank's subsidiaries in Israel and abroad, mutatis mutandis.

HUMAN RESOURCES

Preparations of the Bank for the implementation of Amendment 24 of the Wage Protection Act. 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 negotiations in the matter were concluded in signing a collective agreement in the matter of recording attendance at work and overtime compensation. The agreement signed in the matter with the employee representative committee on March 28, 2014 will take effect in respect of all the Bank employees (excluding limited exceptions determined in the agreement) following a pilot project of five months which began on May 1, 2014, to be conducted at several units of the Bank having different types of operations. The pilot project will test the implementation in practice of the agreement and will settle all matters that would require attention as a result thereof. The date fixed for the full application of the agreement is January 1, 2015. In addition the Bank is required to prepare the supporting computer system.
Negotiations regarding wage agreements. The negotiations regarding the wage agreements were concluded on March 28, 2014, with the signing of a collective agreement according to which an average wage increase at an overall rate of 4.5% had been agreed upon, composed of a supplement to the selective advance for the years 2011 and 2012 at the rate of 0.25%, a selective wage increase for 2013 at the rate of 3.25%, as well as a selective advance for the year 2014 at the rate of 1%.
It has been further stipulated in the agreement that the wage negotiations in respect of 2014 shall begin on April 1, 2015 and until then, industrial peace is to be maintained at the Bank in the matter of the selective wage addition for 2014.
Labor dispute. The labor dispute declared on April 25, 2013, was concluded on March 28, 2014, with the signature of two collective agreements in the matters of a selective salary addition, the recording of attendance at work and overtime compensation.

Employee award (2013). In accordance with the business results for 2013, the Bank has decided to grant to its employees an award of an average amount of one and one third monthly salary. The financial statements as of December 31, 2013, included an adequate provision in respect of the said award in accordance with Management' estimations.

A new extension Order regarding cleaning services. A new extension Order regarding cleaning services entered into effect on March 1, 2014. This Order expands the collective agreement signed on July 11, 2013, between the Federation of Labor and the Cleaning Companies Organization in Israel. Expanding the agreement by way of the Order has also made the agreement effective in accordance with the determination of the parties thereof. Cleaning companies providing cleaning services to the Bank, are members of the said organization, and as such are subject to the provisions of the said agreement. The agreement improves the terms of engagement of cleaning workers employed by cleaning contractors and thus increases engagement costs. Accordingly, the Bank is preparing for the updating of engagement agreements with the cleaning companies, including the updating of the price paid to these companies in respect of cleaning staff employment, as well as the continuing supervision and control over compliance with the provisions of the collective agreement as regards employees of cleaning contractors, as required by the intensified enforcement legislation.

TRANSACTIONS INVOLVING THE BANK'S SHARES

As has been reported to the Bank, Treetops Acquisition Group II LP ("Treetops II"), through which Mr. Schron holds means of control in the Bank, sold on April 8, 2014, in an off-market transaction, 38,278,798 ordinary shares of the Bank at a price of NIS 6.157 per share, everything as detailed in an immediate report dated April 8, 2014 (Ref. No. 2014-01-041775) presented here by reference. The total consideration in respect of the transaction amounted to NIS 236 million.

Following the said sale, Treetops II holds 38,278,799 shares of the Bank amounting to 3.63% of its share capital. For further details regarding the holdings in the Bank of the Bronfman Group and of Mr. Schron, see the 2013 annual report (pp. 223-237), including the reference in the permit of the Governor of the Bank of Israel for the holding of means of control in the Bank, regarding cooperation between the Bronfman Group and Mr. Schron.

REMUNERATION POLICY IN A BANKING CORPORATION

As detailed in the 2013 Annual Report (pp. 226-227, 272), the Bank has made preparations to implement the requirements that it is subject to as a result of Amendment No. 20 to the Companies Act.

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 K to the financial statements as of December 31, 2013, pp. 445-446).

A new instruction in the matter of the remuneration policy of a banking corporation. For details regarding the instruction, see 2013 Annual Report (p.226). 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. Within the framework of the preparations for the implementation of the instruction, the Bank is acting to form principles for a group remuneration policy, as well as a remuneration policy for employees, including central employees.

In his letter dated March 18, 2014, the Supervisor of Banks deferred the date of implementing the requirement to approve a remuneration policy applying to the subsidiary companies in Israel, until September 30, 2014.

CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

A summary review of evaluations and assessments made regarding "critical" matters is included in the 2013 Annual Report (pp. 239-248).

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

The credit risk. The adjustment of credit risk relating to assets and liabilities in respect of derivative instruments led, in the first three months of 2014, to a loss of NIS 11 million, compared to a loss of NIS 9 million in 2013.

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

	March 31, 2014	December 31, 2013
	in NIS millions	
Assets in respect of derivative instruments	3,624	4,131
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(20)	(10)
Liabilities in respect of derivative instruments	4,138	4,913
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(9)	(10)

For additional details regarding the measurement of financial instruments according to their fair value, see the 2013 Annual Report (pp. 242-245).

EMPLOYEE RIGHTS

The capitalization rate used in actuarial computations. Within the framework of the actuarial computations (see the 2013 Annual Report pp. 245-247), 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 March 31, 2014, would have increased by an amount of NIS 994 million (pre-tax). The after-tax effect of the said theoretical change is assessed at NIS 619 million. It should be noted that the increase in the estimated amounts, as stated, in comparison with the data published by the Bank in the financial statements as of December 31, 2013 (p. 247), stems from the decrease in returns of CPI linked government bonds.
Change in accounting treatment. For details regarding the Directive in the matter of the adoption of U.S. accounting principles relating to employee rights, see Note 1 F 3 to the condensed financial statements.
It should be noted that Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of five years.

RATING THE LIABILITIES OF THE BANK AND SOME OF ITS SUBSIDIARIES

For details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies, see the 2013 Annual Report (p. 248).

DIVIDENDS

For details as to limitations on the distribution of dividends, see Note 13 E to the financial statements as of December 31, 2013 (p. 426). The Bank's Management believes that it would not be possible to distribute a dividend in 2014. For further details see the 2013 Annual Report (p. 209).

LEGAL PROCEEDINGS

As for details regarding "Outstanding claims against the Bank" and "Debt recoveries procedures" see the 2013 Annual Report (p. 249), Note 19 C to the financial statements as of December 31, 2013 (pp. 463-470) and Note 7 to the condensed financial statements.

ADDITIONAL LEGAL PROCEEDINGS TO WHICH THE BANK IS A PARTY

Legal proceedings regarding the Lehman Brothers Group. 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. For additional details, see the 2013 Annual Report (p. 249).
Legal proceedings against IDB (Swiss) Bank. The 2013 Annual Report (p. 250), described a claim filed against IDB (Swiss) Bank with the Geneva Labor Court and a claim by way of an originating summons filed against the Bank and against IDB (Swiss) Bank. On May 15, 2014, the Tel Aviv District Court ruled for the dismissal in limine of the claim.
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 amount of the claim in respect of the whole group members is estimated by the Claimant at NIS 40 million. For additional details, see the 2013 Annual Report (p. 250).

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.

On March 31, 2014, the Regional Labor Court dismissed the motion filed by the chairman of the national committee of the Bank's employees. As a result of the above, the employment at the Bank of the chairman of the national committee was terminated as planned, on March 31, 2014.

SIGNIFICANT LEGAL PROCEEDINGS SETTLED IN THE FIRS QUARTER OF 2014

1. 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 alleged that DMB had concealed from its customers the existence of a "transaction permit" (under religious law) thus causing them financial damage. It was also claimed that loans and credit granted by DMB carried interest that included 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. 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.
2. 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 alleged 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 carried interest that included 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. 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.
3. 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 argued that the Respondents provided 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 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 consideration for payment of a negligible amount in compensation of the Appellant and his representatives.
4. On March 7, 2012, 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, ABS, Bank Hapoalim, FIBI, Bank Leumi, Bank Mizrahi-Tefahot, Casponet, Israel credit cards,

and other claimants. The Claimant assessed the amount of the claim at NIS 2.3 billion in respect of all Defendants. The Claimant argued 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.

5. 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. The plaintiff argued that 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.

PROCEEDINGS REGARDING AUTHORITIES

1. For details regarding various proceedings conducted by the Antitrust Commissioner and the Antitrust Tribunal concerning the Group's activities in the credit card field, see Note 34 B 1 to the financial statements as of December 31, 2013 (pp. 524-526) and Note 15 to the condensed financial statements.
2. For details regarding the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which a binding arrangements had existed between the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and FIBI regarding the communication of information with respect to commissions, and for details regarding the understanding reached in this matter between the Commissioner and the banks, see Note 7 B item 6 to the condensed financial statements.
3. For details regarding the terms determined by the Supervisor of Banks and the Antitrust Commissioner in their approval granted to the agreement between the Bank and FIBI Holdings in the matter of the Bank's holdings in FIBI, see Note 6 E (1) to the financial statements as of December 31, 2013 (pp. 410-412).
4. For details regarding the police investigation and the seizure of documents and computer material of ICC, see Note 34 C to the financial statements as of December 31, 2013 (p. 526).
5. For details regarding the agreement between the Government of Switzerland and the U.S. Department of Justice and its possible implications on IDB Swiss, see Note 17 to the condensed financial statements.
6. 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.

ISSUES REGARDING CORPORATE GOVERNANCE

THE INTERNAL AUDIT IN THE GROUP

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work programs and the considerations at its basis were included in the 2013 Annual Report (pp. 256-259).

Updates. During the first quarter of 2014 the following periodic reports were submitted and discussed:

- The quarterly report on the activities of the internal audit in the fourth quarter of 2013 was submitted on January 19, 2014 and discussed in the Audit Committee on February 4 and February 25, 2014;
- The annual report on the activities of the internal audit in 2013 was submitted on March 25, 2014, and discussed by the Audit Committee on April 1, 2014 and by the Board of Directors on April 24, 2014;
- The quarterly report on the activities of the internal audit in the first quarter of 2014 was submitted on April 27, 2014, and it is presently brought for discussion by the Audit Committee.

INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

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

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

The varied activity continued in the first quarter of 2014, while focusing on voluntary activities within the framework of various associations active among a wide range of populations in risk and distress situations. The following projects conducted in the first quarter of 2014 deserve special mention:

Purim activities. Voluntary activities conducted around the country in all centers of operation: children clubs, senior citizens clubs, the blind, hospitals etc.

Bazaar for items produced by persons with special needs. Towards the Passover Holiday the Bank held a bazaar on the Bank's premises for the sale to Bank employees of gifts made by persons with special needs. The project was conducted in cooperation with associations employing persons with special needs: "ENOSH" Rishon Le'Tzion (the Israeli Mental Health Association), "Beit Miriam" (Ilan) and "Ohel Sarah". Income from the bazaar sales was dedicated to the continued blessed activities of the associations.

Units which joined voluntary activities during the quarter. "Discount your way" Givataim branch have adopted the Ramat Gan branch of the "Amcha" Organization for holocaust survivors. The Romema Branch has adopted the Association for the Deaf in Jerusalem. The Business Center, Tel Aviv has adopted the children of the "Lilach" Association (children in risk situations). The Jerusalem direct channels have adopted the "Otot" Association in Jerusalem (girls in risk situations)

The Minister of Immigration and Absorption Plaque granted to the IT and Planning Division. In January 2014, the said Plaque was granted to the Bank`s IT and Planning Division, in appreciation of the voluntary work of the Division's employee at the children house "A Place in the Heart" for children from Ethiopia at the Jaffa community center.

The "A Place in the Heart" project had been started by employees of Discount Mortgage Bank. Some two years ago, in connection with the merger of DMB with and into the Bank, management of the IT and Planning Division decided to adopt the project and even expand the activity in respect thereof.

ARTS

Guided tours. Guided tours of the Bank's art collection, are conducted on Friday mornings at the Discount Tower. Some 18 guided tours of the Bank's art collection were conducted in the first quarter, in which some 400 visitors participated.

Cooperation with Mercantile Discount Bank. The donation to the Um-el-Fahem Gallery of the "Discount 16" Album on behalf of Mercantile Discount Bank, on occasion of a sale event and the raising of funds towards the transition from a gallery to a museum in Um-el-Fahem.

Exhibition of the artist David Mey-Tal. An event held on January 22, 2014, at the Tirosh Gallery for customers of the Banking Division, launching an exhibition of the works of the artist David Mey-Tal. Participating in the event were customers of the Tel Aviv regional administration and of the Tel Aviv business center.

The Streichman Estate. The launching and initial exposure of works of art belonging to the Streichman estate that were transferred to the collection of the Bank by the Streichman family, was held on February 21, 2014. Among the items was an unfinished work by Streichman that had been completed by the artist Yair Garbuz, as well as twenty-five clay statutes made by Streichman.

Lending of works from the collection of the Bank. Three works of the artist Ron Amir were lent to the exhibition "Jisr-al-Zarqa, Back and Forth" at the Haifa Art Museum. A work of art by Tsibi Gevawas lent to a solo exhibition of the artist at the Macro Testacciot Gallery in Rome.

SPONSORSHIPS

Sponsorships were granted during the first quarter of 2014 to activities in various fields. Especially noted are the following sponsorships:

Open day at the Arava. Sponsorship for an exhibition regarding agricultural research and development subjects in the Arava, held in January 2014.

Israeli Friends of the University of Haifa Association. Sponsorship for an event held in January 2014 at the house of the Ambassador for Italy.

Economic Conference for the Agricultural and Industrial Sector. Sponsorship for a conference held in February 2014, with the participation of the Minister of Agriculture.

Gala Event of the Israel Camerata celebrating its thirtieth anniversary, held in March 2014 at the Tel Aviv Museum of Art in the presence of business persons and donors.

Lines and Thoughts Assocition. Sponsorship for an event held in March 2014, for family members facing Attention Deficit Hyperactivity Disorder, ADHD of their children.

Rotary Club. Sponsorship for the Hebrew and English issue of work booklets to members.

The Haifa Center for Rape and Sexual Molestation Victims. Sponsorship for an event held in March 2014 for the purpose of raising funds for operations.

Event in Memory of the Late Edgar Bronfman. Sponsorship for an event held in March 2014 at the Tel Aviv Museum of Art.

"HERZELILINBLUM" - BANKING AND TEL AVIV NOSTALGIA MUSEUM

Tours. About 4,700 visitors toured the Museum during the first quarter, within the framework of some 180 tours and seminars conducted in the Museum for children, students servicemen and adults. Technological improvement made in the first quarter reduced the activity days during the quarter and respectively, the volume of visits.

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

"Adorned – Pioneers and Dreamers" Exhibition. Several events were held within the framework of the exhibition in the first quarter, including: Event of the U.S. Hadassah Women Organization; event of the Forum of the Council of Women's Organizations; a visit by the Israeli Office of Public Diplomacy towards the lighting of the torches ceremony on the Israeli Independence Day, which will take place with an emphasis on women; a seminar held by Dr. Esther Hakim; WIZO event – leadership program; visit of the Chairperson of NA'AMAT and the senior Management of this organization.

TRANSACTIONS WITH CONTROLLING SHAREHOLDERS AND INTERESTED PARTIES

**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 as of December 31, 2013 (pp.495-496 and 499-501).

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.

Approval of an award to the Chairman of the Board for 2013. The annual award to the Chairman of the Board in respect of the year 2013, in the amount of NIS 2,160 thousand, will be brought for approval of a special meeting of the Bank`s shareholders convened for June 18, 2014, following its approval by the Remuneration Committee and by the Board of Directors, as detailed in an immediate report dated May 13, 2014 (Ref No. 2014-01-062172), the information contained therein in this matter is presented here by way of reference (see also Note 22 to the financial statements as of December 31, 2013, pp. 496-499).

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL

During the quarter ended March 31, 2014, no change occurred in the internal control over the financial reporting at the Bank and at Mercantile Discount Bank, which had a material effect or which is expected to have a material effect on financial reporting with the exception of the initial implementation of the instructions in the matter of the adoption of U.S. accounting principles regarding the measurement of interest income (FAS 91), as detailed in Note 1 e (1) to the condensed financial statements.

For the purpose of implementation of these instructions, a local information system was integrated during the reported period at the Bank and at Mercantile Discount Bank, which applies the new measurement rules. Integration of the system required material changes in work procedures related to measurement and reporting of interest income and credit setting-up commission income. In the course of developing and integrating the system, the Bank and Mercantile Discount Bank have installed control measures designed to secure the proper integration of the system. Furthermore, in view of the fact that the integration of the system required changes in work procedures, control mechanism have been included in the new work procedures designed to secure the appropriateness of the information produced by the new system.

MISCALENIOUS

REVIEW BY THE INDEPENDENT AUDITORS

In their review report of the interim consolidated condensed unaudited financial statements for the three months period ended on March 31, 2014, the independent auditors drew attention to Note 7 B items 4.3 and 5 regarding requests to approve certain actions and with regard to other claims as a class action suits against the Bank and investee companies.

BOARD OF DIRECTORS AND MANAGEMENT

REMUNERATION POLICY FOR OFFICERS OF THE BANK

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 K to the financial statements as of December 31, 2013, pp. 445-446).

AMENDMENT OF THE BANK'S ARTICLES - INSTRUCTIONS REGARDING THE APPOINTMENT OF DIRECTORS

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.

In continuation of the above, the Agenda of a special meeting of the Bank`s shareholders convened for June 18, 2014, includes a proposed resolution for the amendment of the Bank`s articles with respect to appointment, acting in office and termination of office of members of the Bank`s Board of Directors, as detailed in an immediate report dated May 13, 2014 (Ref No. 2014-01-062172), the information contained therein in this matter is presented here by way of reference.

ANNOUNCEMENT AND APPROACH TO THE PUBLIC BY THE COMMITTEE FOR THE APPOINTMENT OF DIRECTORS IN BANKING CORPORATIONS

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. (For additional details, see the 2013 annual report, p.191).

On May 13, 2014, the Committee issued a notice to the public in the matter of Discount Bank regarding the possibility of submitting until May 29, 2015, applications for candidacy for office of director of the Bank.

THE BANK'S PRESIDENT & CEO

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. Everything as detailed in immediate reports dated August 21, 2013 (Ref No. 2013-01-123042), October 17, 2013 (Ref. No. 2013-01-168351) and February 19, 2014 (Ref No. 2014-01-42298).

The information included in the said immediate reports, is presented here by way of reference.

CHANGES IN MANAGEMENT

Ms. Yafit Gariani began on April 13, 2014, her office as member of Management, with the title of Executive Vice President, heading the Operations and Logistics Division. Ms. Gariani replaced Mr. Shlomo Avidan, who retired from office on the same date, everything as detailed in immediate reports dated April 13, 2014 (Ref. Nos. 2014-01-045255 and 2014-01-045225) and March 4, 2013 (Ref. No. 2014-01-00532).

Mr. Uri Levin took office as member of Management on May 7, 2014, with the title of Senior Executive Vice President, heading the Planning, Strategy and Finance Division (formerly: Strategy, Marketing and Service Division), everything as detailed in the immediate report dated March 31, 2014 (Ref. No. 2014-01-032238) and May 5, 2014 (Ref. No. 2014-01-057390).

The Board of Directors meeting held on April 7, 2014, resolved to approve the appointment of Mr. Levy Halevy as member of Management, with the title of Executive Vice President, heading the Technologies Division, everything as detailed in the immediate report dated April 7, 2014 (Ref. No. 2014-01-041484). Mr. Halevy is replacing Mr. Shai Vardi, who had announced his retirement from the Bank. The date of retirement from office of Mr. Vardi has been fixed for May 31, 2014.

The detailed information provided in all immediate reports mentioned above 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. Avidan and Mr. Vardi for their work and contribution during their term of office at the Bank and wish success to the new members of Management.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In the first three months of 2014, the Board of Directors held 10 meetings. In addition, 25 meetings of committees of the Board of Directors were held.

May 22, 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:

	March 31, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	783	823	45	5
Financial services(1)	10,628	10,449	104	283
Total non government bonds	**11,411**	**11,272**	**149**	**288**
Government bonds				
U.S. government	174	165	-	9
Israel Government	16,769	17,251	482	-
Other Governments	240	244	4	-
Total government bonds	**17,183**	**17,660**	**486**	**9**
Total bond in the available-for-sale portfolio	**28,594**	**28,932**	**635**	**297**

*There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 384 million.

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

	March 31, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	3,308	3,234	62	136
Insurance and provident funds	98	106	8	-
Ginnie Mae	2,122	2,089	8	41
Freddie Mac	1,738	1,720	8	26
Fannie Mae	3,321	3,255	13	79
Other*	41	45	5	1
Total financial services	**10,628**	**10,449**	**104**	**283**

* In the said group there is no investment in bonds which exceeds NIS 33 million.

(2) See next page.

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

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

	March 31, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America(3)	1,321	1,208	18	131
Western Europe(4)	1,313	1,340	32	5
Israel	493	501	8	-
Australia	181	185	4	-
Total banks and banking holding companies	**3,308**	**3,234**	**62**	**136**

(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	30	32	2	-
A+ to A-	157	142	-	15
BBB+ to BBB-	860	803	12	69
BB+ to B-	234	192	-	42
Not rated	40	39	4	5
Total	**1,321**	**1,208**	**18**	**131**

(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	488	501	17	4
Switzerland	206	208	2	-
France	255	257	3	1
Netherlands	159	164	5	-
Other*	205	210	5	-
Total	**1,313**	**1,340**	**32**	**5**

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

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

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

	March 31, 2014			
	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	36	36	-	-
Public and community services	*1,861	1,903	78	36
Financial services[(1)]	1,483	1,477	26	32
Total non government bonds	**3,380**	**3,416**	**104**	**68**
Total Government bonds	**3,655**	**3,989**	**334**	**-**
Total held-to-maturity bonds	**7,035**	**7,405**	**438**	**68**
(1) Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	476	478	9	7
Freddie Mac	485	477	2	10
Fannie Mae	245	235	-	10
Other Government Agencies	89	85	-	4
Other**	188	202	15	1
Total financial services	**1,483**	**1,477**	**26**	**32**

*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 203-207 million, each, in municipal bonds of New York City, in bonds of the water corporation of New York city and in bonds of the state of New York.

**In the said group there is no bond whose fair value exceeds NIS 92 million.

3. TRADING BONDS - DATA ACCORDING TO ECONOMIC SECTORS

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

	March 31, 2014			
	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]	72	73	2	1
Financial services	60	59	-	1
Total non government bonds	**132**	**132**	**2**	**2**
Total government bonds	**1,051**	**1,059**	**8**	**-**
Total bonds in the trading portfolio	**1,183**	**1,191**	**10**	**2**

(1) There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 56 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 57 million as of March 31, 2014, compared with NIS 64 million as of December 31, 2013, a decrease of 11%. These securities are classified to the financial services economic sector. The collateral pertaining to these securities is all located in the United States (for further details see the 2013 Annual Report, p. 249).

As of March 31, 2014, there was no impairment as regards the said securities.

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

Presented below are details as of March 31, 2014 and December 31, 2013, of certain bonds, held by IDB New York in their available for sale portfolio, with a ratio of unrealized loss of a temporary nature to amortized cost in excess of 20%, during a period which exceeds 12 months:

	March 31, 2014						
					Securities Ratings		
	Amortized Cost	Fair Value	Unrealized Loss	Final Maturity	Moody's	S&P	Fitch
Issuer's / Group's Name	in NIS thousands						
Securities with ratio of unrealized loss from 20% to 40%							
Bank of America	104,600	83,688	(20,912)	2027	Ba1	BB+	BB+
J.P. Morgan Chase	52,441	40,934	(11,507)	2037	Baa2	BBB	BBB
Total securities with ratio of unrealized loss from 20% to 40%	**157,041**	**124,622**	**(32,419)**				
	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+
P.J. 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)**				

Notes:
The data in the table was aggregated by issuer's group.

As of March 31, 2014 and 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.

As of March 31, 2014, all of the unrealized loss detailed in the above table relate to Trust Preferred Securities (hereinafter: "TRUPS"), issued by financial institutions. Unrealized losses in the amount of approx. NIS 21 million is in respect of securities rated below investment grade by one or more rating agencies.

For details regarding TRUPS characteristics, see the 2013 Annual Report (pp. 295-296). For details regarding the review of the portfolio, in order to determine whether other than temporary impairment (OTTI) has occurred, see the 2013 Annual Report (pp. 357-358).

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.

Subsequent to balance sheet date, the market value of the securities presented above increased compared to their value at March 31, 2014, so that at May 9, 2014, the rate of the unrealized loss in their respect was lower than 20%.

Presented below are further details relating to particular groups presented in the table above, with regard to which there is an unrealized loss of NIS 10 million or more, as at March 31, 2014.

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

Bank of America corporation (BOA). BOA reported a net loss of US$276 million for the first quarter 2014, compared with a net profit of US$3.4 billion in the fourth quarter 2013 and US$1.4 billion in the corresponding quarter last year. The decline in profit was mainly affected by expenses in respect of legal proceedings in the mortgage field in the amount of US$6 billion, as part of the arrangement reached by the Bank with the Federal Housing Finance Agency (FHFA). The credit losses expenses amounted to US$984 million in the first quarter of 2014 compared to US$332 million in the previous quarter and US$1.7 billion in the corresponding period last year. Losses per share were US$0.05, compared with earnings per share of US$0.29 in the previous quarter. Total assets amounted to US$2.1 trillion, similar to the previous quarter.

Non-performing loans at the first quarter 2014 were 4.3% of gross loans, compared to 4.6% in the previous quarter. The ratio of the allowance for credit losses to total non-performing loans was 40.5% at the end of the first quarter of 2014, compared to 39.0% at the end of the previous quarter.

BOA is a well-capitalized institution, with a Total Capital ratio of 18.09% at March 31, 2014, compared with 15.44% as at December 31, 2013.

JP Morgan Chase (JPM). JPM reported a net income of US$5.3 billion for the first quarter of 2014, similar to the fourth quarter of 2013 and compared to US$6.5 billion in the corresponding quarter last year.

Credit losses expenses amounted to US$917 million in the first quarter of 2014, compared to an expense of US$76 million in the previous quarter and an expense of US$569 million in the corresponding quarter last year. Earning per share amounted to US$1.28 compared with earning per share of US$1.3 in the previous quarter. Total assets amounted to US$2.48 trillion, compared to US$2.42 trillion at the end of the previous quarter.

Non-performing loans at the first quarter of 2014 were 2.95% of gross loans, compared to 3.1% at the end of the previous quarter. The ratio of the allowance for credit losses to total non-performing loans at the end of the first quarter 2014 was 71.0%, compared to 68.6% at the end of the previous quarter.

JPM is a well-capitalized institution, with a Total Capital ratio of 15.27% at March 31, 2014, compared to 14.36% as of December 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 are required to include in the report a table relating the disclosure requirements stated in the instruction to the sections in the Directors' report or to the Notes to the financial statements in which the information required to be presented is included. The required information as above is reflected in the following table.

Table No.	Topic	Location*	Page No. in 2013 Annual Report	Page No. in this Report
Table 1	Scope of implementation	Basel II - The implementation in Israel of the Basel committee recommendations	135-138	53-54
Table 2	Capital structure – qualitative and quantitative disclosure	Capital resources Note 14(4) to the financial statements Internet document – parts "A" and "B"	 35-40 428	
Table 3a	Capital adequacy - qualitative disclosure	Capital resources	33-35	20-21
Table 3b,d,e,f	Capital adequacy - quantitative disclosure	Capital resources Note 14(2) to the financial statements Interim report – Note 5 Internet document – part "C"	40 426	 167
Table 3g,h,i	Capital adequacy - quantitative disclosure	Capital resources Note 14(1), 14(3) to the financial statements Interim report – Note 5	36-38 426-427	22 167-168
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	53-54
Table 4a	Credit risk - qualitative disclosure	Credit risk management	141-158	54-58
Table 4b	Credit risk - exposure according to main exposure types	Credit risk management - Quantitative disclosure regarding credit risk	150	55
Table 4c	Credit risk - main geographic distribution of exposures	Management review - Schedule "F", Interim report – Schedule "C"	320-323	 108-112
Table 4d	Credit risk - Counterparty type distribution of exposures	Internet document – part "C"		
Table 4e	Credit risk - Residual contractual maturity breakdown of the whole portfolio	Internet document – part "C"		
Table 4f	Credit risk - problematic debts	Management review - Schedule "E", Interim report – Schedule "D"	318-319	 113-115

* Unless stated otherwise, the location is under "Exposure to Risks and Risks management" or as a Note to the Financial Statements.

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 2012 Annual Report	Page No. in this Report
Table 4g	Credit risk - problematic debts classified according to main geographical areas	Management review - Schedule "F", Interim report – Schedule "C"	320-323	108-112
Table 4h	Credit risk – change in the balance of allowance for credit losses	Note 4 A to the financial statements, Interim report – Note 3 A	386-389	145-147
Table 5	Credit risk - disclosure as to credit files managed according to the standard approach	Internet document – part "C"		
Table 7	Credit risk mitigation	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	55
Table 9	Securitization exposure	Credit risk management – Securitization exposure Internet document – part "C"	152-153	55-56
Table 10	Market risk	Management of market and liquidity risks	158-170	59-64
Table 12	Operational risks	Operational risks	172-176	64
Table 13	Share positions in the banking book	Internet document – part "C"		
Table 14	Interest rate risk in the banking book	Management of market and liquidity risks	158-170	59-64

* Unless stated otherwise, the location is under "Exposure to Risks and Risks management" or as a Note to the Financial Statements.

PART "C": ADDITIONAL DETAILS

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

(1) Following are details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank:

	As of March 31, 2014	As of December 31, 2013
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	386	446
With an A+ rating	127	36
With an A rating	866	921
With an A- rating	165	182
With a BBB+ rating	208	160
With a BBB rating	-	1
Not rated	25	18
Total against foreign banks	**1,777**	**1,764**
Total against Israeli banks	**1,053**	**1,093**
Total Balance-sheet balances of assets deriving from transactions in derivative instruments	**2,830**	**2,857**

(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 March 31, 2014	As of December 31, 2013
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	17	105
With an A+ rating	12	6
With an A rating	44	134
With an A- rating	4	15
With an BBB+ rating	3	19
With an BBB rating	-	3
Not rated	2	1
Total against foreign banks	**82**	**283**
Total against Israeli banks	**1**	**50**
Total Off Balance-sheet balances of assets deriving from transactions in derivative instruments	**83**	**333**

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Following are details of the column "Other" in Note 8 B to the condensed financial statements according to the total credit to the public risk per economic sectors:

	As of March 31, 2014		As of March 31, 2013		As of December 31, 2013	
	in NIS million					
Agriculture				2		2
Industry:						
Machines, electrical and electronic equipment	38		56		18	
Mining, chemical industry and oil products	37		95		101	
Other	31		37		38	
Total industry		106		188		157
Construction and real estate:						
Acquisition of real estate for construction	39		55		55	
Real estate holdings	12		171		39	
Other	7		14		11	
Total Construction and real estate		58		240		105
Electricity and water		267		245		417
Commerce		26		148		67
Hotels, hotel services and food		-		5		1
Transportation and storage		47		34		53
Communications and computer services		83		10		10
Financial services:						
Financial institution (excluding banks)	123		(1)111		263	
Private customers active on the capital market	115		263		405	
Financial holding institutions	133		88		183	
Insurance and provident fund services	135		109		185	
Total financial services		506		571		1,036
Business and other services		15		34		77
Public and community services		1		10		3
Private individuals - housing loans		-		-		-
Private individuals - other		20		(1)21		27
Total		**1,129**		**1,508**		**1,955**
Credit risk mitigation in respect of financial instruments		(141)		(176)		(444)
Total credit risk in respect of derivative instruments		**988**		**1,332**		**1,511**

Footnote:

(1) Reclassified - improving classification in different sectors.

2. CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Following are data regarding credit risk in respect of leveraged finance. Disclosure is focused on exposures, each of which exceeds NIS 50 million.

The Bank's exposure to leveraged finance according to the economic sector of the acquired corporation:

	Balance sheet credit as of	
	March 31, 2014	December 31, 2013
Sector	In NIS millions	
Industry	1,170	1,175
Construction and real estate	1,307	1,364
Electricity and water	-	26
Commerce	497	510
Transportation and storage	187	194
Communications and computer services	40	134
Financial services	482	525
Total	**3,683**	**3,928**

Exposure to leveraged finance as of March 31, 2014 amounted to NIS 3,683 million, compared to NIS 3,928 million for December 31, 2013, a decrease of 6.2%.
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 March 31, 2014, amounted to NIS 181 million (December 31, 2013 – NIS 541 million).

3. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 2 A to the condensed financial statements includes, among other things, details regarding investments in government bonds included in the held to maturity portfolio, the available-for-sale portfolio and the trading portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Following are details divided by governments with respect to the total securities portfolio:

	March 31, 2014		December 31, 2013	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	21,965	22,299	25,689	25,967
U.S. government	165	165	159	159
Other governments	244	[2]244	176	[2]176
Total	**22,374**	**22,708**	**26,024**	**26,302**

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 thereof exceeds NIS 71 million as of March 31, 2014 (NIS 51 million as of December 31,2013).

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1]

Part "A" - Average balances and interest rates - assets

	For the three months ended March 31					
	2014			2013		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:[3]						
In Israel	91,860	931	4.12	94,428	1,135	4.90
Outside Israel	18,511	156	3.41	17,773	161	3.67
Total credit to the public	**110,371**	***1,087**	**4.00**	**112,201**	***1,296**	**4.70**
Credit to the Government:						
In Israel	1,824	(9)	(1.96)	1,620	[10]-	-
Outside Israel	53	[10]-	-	79	1	5.16
Total credit to the Government	**1,877**	**(9)**	**(1.90)**	**1,699**	**1**	**0.24**
Deposits with banks:						
In Israel	3,144	3	0.38	2,173	5	0.92
Outside Israel	2,507	6	0.96	2,333	7	1.21
Total deposits with banks	**5,651**	**9**	**0.64**	**4,506**	**12**	**1.07**
Deposits with central banks:						
In Israel	15,588	35	0.90	14,131	61	1.74
Outside Israel	1,197	1	0.33	2,319	2	0.35
Total deposits with central banks	**16,785**	**36**	**0.86**	**16,450**	**63**	**1.54**
Securities borrowed or purchased under resale agreements:						
In Israel	349	1	1.15	357	1	1.13
Total securities borrowed or purchased under resale agreements	**349**	**1**	**1.15**	**357**	**1**	**1.13**
Bonds held for redemption and available for sale:[4]						
In Israel	24,481	93	1.53	26,708	172	2.60
Outside Israel	14,265	93	2.63	16,423	83	2.04
Total bonds held for redemption and available for sale	**38,746**	**186**	**1.93**	**43,131**	**255**	**2.39**
Trading bonds:[4]						
In Israel	1,970	5	1.02	2,828	26	3.73
Outside Israel	53	[10]-	-	51	[10]-	-
Total trading bonds	**2,023**	**5**	**0.99**	**2,879**	**26**	**3.66**
Other assets:						
In Israel	-	[9]3	-	-	[9]9	-
Outside Israel	603	6	4.04	623	5	3.25
Total other assets	**603**	**9**	**6.11**	**623**	**14**	**9.30**
Total interest bearing assets	**176,405**	**1,324**	**3.04**	**181,846**	**1,668**	**3.72**
Debtors in respect of credit card operations	5,559			5,507		
Other non-interest bearing assets[5]	15,598			14,343		
Total assets	**197,562**			**201,696**		
Of which: Total interest bearing assets attributable to operations outside Israel	37,189	262	2.85	39,601	259	2.64
* Commissions included in interest income from credit to the public[12]		71			38	

For footnotes see page 103.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[(1)] (CONTINUED)

Part "B" - Average balances and interest rates - liabilities and equity

	For the three months ended March 31					
	2014			2013		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	16,274	6	0.15	[(11)]14,290	[(11)]14	0.39
In Israel - Time deposits	89,554	129	0.58	[(11)]98,669	[(11)]344	1.40
Total deposits from the public in Israel	**105,828**	**135**	**0.51**	**112,959**	**358**	**1.27**
Outside Israel - On call	11,867	14	0.47	13,228	14	0.42
Outside Israel - Time deposits	9,521	17	0.72	8,647	22	1.02
Total deposits from the public outside Israel	**21,388**	**31**	**0.58**	**21,875**	**36**	**0.66**
Total deposits from the public	**127,216**	**166**	**0.52**	**134,834**	**394**	**1.17**
Deposits from the Government:						
In Israel	387	1	1.04	386	1	1.04
Outside Israel	585	1	0.69	636	1	0.63
Total deposits from the Government	**972**	**2**	**0.83**	**1,022**	**2**	**0.79**
Deposits from banks:						
In Israel	2,355	6	1.02	2,671	11	1.66
Outside Israel	1,630	5	1.23	1,336	5	1.51
Total deposits from banks	**3,985**	**11**	**1.11**	**4,007**	**16**	**1.61**
Securities loaned or sold under repurchase agreements:						
Outside Israel	3,751	35	3.78	5,445	48	3.57
Total securities loaned or sold under repurchase agreements	**3,751**	**35**	**3.78**	**5,445**	**48**	**3.57**
Bonds:						
In Israel	11,541	89	3.12	12,245	161	5.36
Total bonds	**11,541**	**89**	**3.12**	**12,245**	**161**	**5.36**
Other liabilities:						
In Israel	155	[(9)]3	7.97	152	[(9)]3	8.13
Total other liabilities	**155**	**3**	**7.97**	**152**	**3**	**8.13**
Total interest bearing liabilities	**147,620**	**306**	**0.83**	**157,705**	**624**	**1.59**
Non-interest bearing deposits from the public	23,156			18,127		
Creditors in respect of credit card operations	6,072			6,095		
Other non-interest bearing liabilities[(6)]	8,298			8,030		
Total liabilities	**185,146**			**189,957**		
Total capital resources	**12,416**			**11,739**		
Total liabilities and capital resources	**197,562**			**201,696**		
Interest margin		**1,018**	**2.21**		**1,044**	**2.13**
Net return on interest bearing assets:[(7)]						
In Israel	139,216	828	2.40	142,245	875	2.48
Outside Israel	37,189	190	2.06	39,601	169	1.72
Total net return on interest bearing assets	**176,405**	**1,018**	**2.33**	**181,846**	**1,044**	**2.32**
Of which: Total interest bearing liabilities attributable to operations outside Israel	27,354	72	1.06	29,292	90	1.23

For footnotes see page 103.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "C" - Average balances and interest rates – additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the three months ended March 31					
	2014			2013		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	99,341	921	3.76	100,439	1,085	4.39
Total interest bearing liabilities	(81,054)	(191)	(0.95)	(84,094)	(325)	(1.55)
Interest margin		**730**	**2.81**		**760**	**2.84**
CPI-linked shekels:						
Total interest bearing assets	24,363	26	0.43	24,791	204	3.33
Total interest bearing liabilities	(19,676)	(19)	(0.39)	(20,120)	(169)	(3.40)
Interest margin		**7**	**0.04**		**35**	**(0.07)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	15,512	115	3.00	17,015	120	2.85
Total interest bearing liabilities	(19,536)	(24)	(0.49)	(24,199)	(40)	(0.66)
Interest margin		**91**	**2.51**		**80**	**2.19**
Total operations in Israel:						
Total interest bearing assets	139,216	1,062	3.09	142,245	1,409	4.02
Total interest bearing liabilities	(120,266)	(234)	(0.78)	(128,413)	(534)	(1.67)
Interest margin		**828**	**2.31**		**875**	**2.35**

For footnotes see next page.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

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

	For the three months ended March 31		
	2014 Compared to 2013		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	(26)	(178)	(204)
Outside Israel	6	(11)	(5)
Total credit to the public	**(20)**	**(189)**	**(209)**
Other interest bearing assets:			
In Israel	(1)	(142)	(143)
Outside Israel	(18)	26	8
Total other interest bearing assets	**(19)**	**(116)**	**(135)**
Total interest income	**(39)**	**(305)**	**(344)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	(9)	(214)	(223)
Outside Israel	(1)	(4)	(5)
Total deposits from the public	**(10)**	**(218)**	**(228)**
Other interest bearing liabilities:			
In Israel	(7)	(70)	(77)
Outside Israel	(10)	(3)	(13)
Total other interest bearing liabilities	**(17)**	**(73)**	**(90)**
Total interest expenses	**(27)**	**(291)**	**(318)**
Interest income, net	**(12)**	**(14)**	**(26)**

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 2 million and NIS 218 million, respectively; 2013 – NIS (14) million and NIS 399 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.

(10) An amount lower than NIS 1 million.

(11) Reclassified, following an examination of the terms of certain deposits.

(12) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1E(1) to the condensed financial statements.

SCHEDULE "B" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED

	As at March 31, 2014				
	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]	74,900	17,343	6,581	4,064	2,032
Derivative financial instruments (except for options)	16,125	27,953	16,603	12,682	11,213
Options (in terms of base assets)	178	369	565	84	53
Total fair value	**91,203**	**45,665**	**23,749**	**16,830**	**13,298**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	71,530	8,678	9,709	4,471	906
Derivative financial instruments (except for options)	18,453	37,016	14,962	11,368	10,836
Options (in terms of base assets)	163	327	660	6	-
Off-balance sheet financial instruments	-	2	5	1	-
Total fair value	**90,146**	**46,023**	**25,336**	**15,846**	**11,742**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,057	(358)	(1,587)	984	1,556
Cumulative exposure in the segment	**1,057**	**699**	**(888)**	**96**	**1,652**
CPI linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	580	2,155	4,245	6,971	5,340
Derivative financial instruments (except for options)	1	-	576	889	799
Options (in terms of base assets)	-	4	4	4	-
Total fair value	**581**	**2,159**	**4,825**	**7,864**	**6,139**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	1,211	936	3,317	6,191	2,961
Derivative financial instruments (except for options)	118	1,081	1,892	1,901	761
Options (in terms of base assets)	1	2	7	20	7
Off-balance sheet financial instruments	-	1	4	-	-
Total fair value	**1,330**	**2,020**	**5,220**	**8,112**	**3,729**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(749)	139	(395)	(248)	2,410
Cumulative exposure in the segment	**(749)**	**(610)**	**(1,005)**	**(1,253)**	**1,157**

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 March 31, 2014						As at March 31, 2013			As at December 31, 2013		
Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
						in NIS millions						
2,762	653	19	481	108,835	3.21%	0.54	107,496	4.10%	0.66	109,194	3.46%	0.61
5,665	57	-	-	90,298		1.39	74,342		1.48	91,339		1.31
38	3	-	-	1,290		0.01	1,920		0.01	1,501		0.01
8,465	**713**	**19**	**481**	**200,423**		**(2)0.92**	**183,758**		**(2)0.99**	**202,034**		**(2)0.93**
580	103	-	-	95,977	0.78%	0.27	96,782	1.46%	0.28	98,157	0.95%	0.26
6,255	55	-	-	98,945		1.30	84,914		1.42	98,993		1.30
-	-	-	-	1,156		0.01	1,496		0.01	1,127		0.01
-	-	-	-	8		0.01	9		0.01	8		0.01
6,835	**158**	**-**	**-**	**196,086**		**(2)0.76**	**183,201**		**(2)0.76**	**198,285**		**(2)0.76**
1,630	555	19	481	4,337			557			3,749		
3,282	**3,837**	**3,856**	**4,337**									
4,595	1,092	48	34	25,060	1.54%	3.41	26,893	1.96%	3.61	25,682	2.09%	3.38
557	6	-	-	2,828		3.36	3,400		3.16	3,162		3.09
-	-	-	-	12		0.01	32		0.01	17		0.01
5,152	**1,098**	**48**	**34**	**27,900**		**(2)3.40**	**30,325**		**(2)3.56**	**28,861**		**(2)3.35**
6,104	524	-	-	21,244	0.95%	3.54	21,934	0.95%	3.80	21,860	0.98%	3.54
637	-	-	-	6,390		1.96	5,595		2.29	6,814		1.72
-	-	-	-	37		0.01	152		0.01	57		0.01
-	-	-	-	5		0.58	9		0.66	7		0.64
6,741	**524**	**-**	**-**	**27,676**		**(2)3.17**	**27,690**		**(2)3.47**	**28,738**		**(2)3.10**
(1,589)	574	48	34	224			2,635			123		
(432)	**142**	**190**	**224**									

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see "Management and measurement of market risks" under "Exposure to risks and risk management".

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 9 a.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, 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 "B" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED (CONTINUED)

	As at March 31, 2014				
	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]	25,884	9,438	4,284	3,946	3,026
Derivative financial instruments (except for options)	24,855	18,618	20,784	5,185	2,461
Options (in terms of base assets)	2,251	1,654	2,846	173	-
Total fair value	**52,990**	**29,710**	**27,914**	**9,304**	**5,487**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	41,917	7,659	8,584	2,615	2,937
Derivative financial instruments (except for options)	18,215	14,677	16,844	6,078	2,950
Options (in terms of base assets)	2,263	1,694	2,739	221	36
Off-balance sheet financial instruments	-	-	1	-	-
Total fair value	**62,395**	**24,030**	**28,168**	**8,914**	**5,923**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(9,405)	5,680	(254)	390	(436)
Cumulative exposure in the segment	**(9,405)**	**(3,725)**	**(3,979)**	**(3,589)**	**(4,025)**
Total exposure to changes in interest rates					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1],[3]	101,375	28,936	15,110	14,981	10,398
Derivative financial instruments (except for options)	40,981	46,571	37,963	18,756	14,473
Options (in terms of base assets)	2,429	2,027	3,415	261	53
Total fair value	**144,785**	**77,534**	**56,488**	**33,998**	**24,924**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	114,669	17,273	21,610	13,277	6,804
Derivative financial instruments (except for options)	36,786	52,774	33,698	19,347	14,547
Options (in terms of base assets)	2,427	2,023	3,406	247	43
Off-balance sheet financial instruments	-	3	56	1	-
Total fair value	**153,882**	**72,073**	**58,770**	**32,872**	**21,394**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(9,097)	5,461	(2,282)	1,126	3,530
Cumulative exposure in the segment	**(9,097)**	**(3,636)**	**(5,918)**	**(4,792)**	**(1,262)**

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 March 31, 2014							As at March 31, 2013			As at December 31, 2013		
Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
in NIS millions												
4,639	3,001	-	583	54,801	2.72%	1.63	56,223	2.63%	1.33	55,381	2.75%	1.56
2,494	-	-	-	74,397		0.73	68,010		0.63	75,625		0.59
-	-	-	-	6,924		0.01	6,023		0.01	6,418		0.01
7,133	**3,001**	**-**	**583**	**136,122**		**[2]1.05**	**130,256**		**[2]0.90**	**137,424**		**[2]0.95**
794	50	-	-	64,556	0.51%	0.46	65,293	0.53%	0.59	63,514	0.56%	0.48
3,984	6	-	-	62,754		1.03	56,410		0.85	65,154		0.80
29	2	-	-	6,984		0.01	6,276		0.01	6,698		0.01
-	-	-	-	1		0.67	1		0.67	1		0.67
4,807	**58**	**-**	**-**	**134,295**		**[2]0.70**	**127,980**		**[2]0.68**	**135,367**		**[2]0.61**
2,326	2,943	-	583	1,827			2,276			2,057		
(1,699)	**1,244**	**1,244**	**1,827**									
11,996	4,746	67	3,481	191,090	2.84%	1.24	191,313	3.37%	1.28	191,125	3.07%	1.26
8,716	63	-	-	167,523		1.13	145,752		1.12	170,126		1.02
38	3	-	-	8,226		0.01	7,975		0.01	7,936		0.01
20,750	**4,812**	**67**	**3,481**	**366,839**		**[2]1.16**	**345,040**		**[2]1.18**	**369,187**		**[2]1.13**
7,478	677	-	-	181,788	0.70%	0.72	184,009	1.07%	0.81	183,534	0.82%	0.73
10,876	61	-	-	168,089		1.22	146,919		1.24	170,961		1.13
29	2	-	-	8,177		0.01	7,924		0.01	7,882		0.01
-	-	-	-	60		0.06	81		0.08	83		0.06
18,383	**740**	**-**	**-**	**358,114**		**[2]0.94**	**338,933**		**[2]0.97**	**362,460**		**[2]0.90**
2,367	4,072	67	3,481	8,725			6,107			6,727		
1,105	**5,177**	**5,244**	**8,725**									

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see "Management and measurement of market risks" under "Exposure to risks and risk management".

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 9 a.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, 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 "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1]

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's equity, the lower of the two

	March 31, 2014		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	1,238	3,046	1,174
United Kingdom	-	2,165	115
Switzerland	-	827	324
PIIGS[5]	-	6	10
Other	278	3,700	2,512
Total exposure to foreign countries	**1,516**	**9,744**	**4,135**
Of which - Total exposure to LDC countries	139	793	590

Notes:
(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.
(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
(4) Governments, official institutions and central banks.
(5) Portugal, Ireland, Italy, Greece and Spain.

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% the equity, whichever is lower.

As of March 31, 2014, the Bank had no such exposure.

C. Information regarding balance sheet exposure to foreign countries having liquidity problems, for the period of three months ended March 31, 2014

As of March 31, 2014 the Bank had no such exposure.

Information regarding balance-sheet exposures that have undergone restructuring

As of March 31, 2014 the Bank had no such exposure.

Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country						Off-balance sheet exposure(2)(3)		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					
26,636	17,488	9,148	14,606	635	168	6,487	1	4,041	1,417
830	86	744	3,024	391	391	56	-	1,540	740
1,116	254	862	2,013	16	16	178	-	668	483
-	-	-	16	-	-	5	-	2	14
1,747	1,746	1	6,491	260	259	519	1	3,643	2,847
30,329	**19,574**	**10,755**	**26,150**	**1,302**	**834**	**7,245**	**2**	**9,894**	**5,501**
-	-	-	1,522	-	-	199	-	995	527

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 "Supplementary provision 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 corporation in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

SCHEDULE "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1] (CONTINUED)

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's equity, the lower of the two.

	March 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	1,390	1,956	1,264
United Kingdom	83	2,016	133
PIIGS[5]	-	2	15
Other	264	3,375	4,017
Total exposure to foreign countries	**1,737**	**7,349**	**5,429**
Of which - Total exposure to LDC countries	80	904	754

	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, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals 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.

March 31, 2013									
Balance sheet exposure[2]						Off-balance sheet exposure[2][3]			
Balance sheet exposure to local resident customers of extensions of a banking corporation in a foreign country								Across the border balance sheet exposure[2]	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet commercial criticized exposure	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet commercial criticized exposure	Due up to one year	Due over one year
In NIS millions									
27,987	17,972	10,015	14,625	863	311	8,055	1	3,675	935
973	111	862	3,094	609	586	78	-	1,524	708
-	-	-	17	1	1	12	-	5	12
2,056	1,850	206	7,862	579	579	971	1	4,287	3,369
31,016	**19,933**	**11,083**	**25,598**	**2,052**	**1,477**	**9,116**	**2**	**9,491**	**5,024**
1,591	1,591	-	1,738	2	11	206	-	1,061	677

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 "Supplementary provision 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 corporation in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

SCHEDULE "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[(1)] (CONTINUED)

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of shareholders' equity, whichever is lower.

As of March 31, 2013, the Bank had no such exposure.

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.

C. Information regarding exposure to foreign countries having liquidity problems for the period of three months ended March 31, 2013 and for the year ended December 31, 2013

1. Changes in the amount of balance sheet exposure to foreign countries having liquidity problems

	Balance sheet balances	
	For the three months ended March 31, 2013	For the year ended December 31, 2013
	Ireland	
	In NIS millions	
Amount of exposure at the beginning of year	9	9
Changes in remaining exposure:	-	-
Added exposure	-	51
Amounts collected	(1)	(5)
Other changes (including provisions and write-offs)	-	1
Amount of exposure at period end	**8**	**56**

2. Information regarding balance-sheet exposures that have undergone restructuring

As of March 31, 2013 and December 31, 2013, the Bank had no such exposure.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED

	March 31, 2014								
	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	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	1,120	28	1,120	869	29	24	(2)	-	20
Industry	16,013	1,456	15,874	11,429	1,447	644	18	-	427
Construction and Real Estate - Construction	[7]13,986	591	13,967	5,731	592	314	4	(1)	167
Construction and Real Estate - Real Estate Activity	10,640	704	10,574	8,578	704	605	(17)	5	126
Electricity and Water	2,959	22	2,312	1,856	22	9	1	-	6
Commerce	14,675	947	14,556	11,820	947	321	31	10	308
Hotels, Hotel Services and Food	1,985	255	1,985	1,673	255	241	6	5	19
Transportation and Storage	3,115	76	3,060	2,458	68	40	5	-	36
Communication and Computer Services	2,334	312	2,090	1,560	310	162	(5)	(1)	34
Financial Services	8,405	251	7,166	5,881	250	243	(10)	(1)	122
Other Business Services	6,295	95	6,253	4,522	95	58	8	4	83
Public and Community Services	2,276	29	2,275	1,630	29	13	(3)	(1)	10
Total Commercial	**83,803**	**4,766**	**81,232**	**58,007**	**4,748**	**2,674**	**36**	**20**	**1,358**
Private Individuals - Housing Loans	21,069	465	21,069	19,860	465	-	(2)	-	252
Private Individuals - Other	38,961	329	38,937	18,868	329	91	(9)	11	322
Total Public	**143,833**	**5,560**	**141,238**	**96,735**	**5,542**	**2,765**	**25**	**31**	**1,932**
Banks in Israel	2,213	-	1,088	831	-	-	-	-	1
Israeli Government	24,217	-	2,183	1,804	-	-	-	-	-
Total Lending Activity in Israel	**170,263**	**5,560**	**144,509**	**99,370**	**5,542**	**2,765**	**25**	**31**	**1,933**
Lending Activity Outside of Israel									
Agriculture	290	-	290	168	-	-	-	-	2
Industry	6,591	87	6,552	3,909	87	5	(1)	1	50
Construction and Real Estate - Construction	801	250	795	756	250	250	24	7	58
Construction and Real Estate - Real Estate Activity	7,016	608	6,975	5,420	601	360	2	(6)	77
Electricity and Water	343	-	332	281	-	-	-	-	2
Commerce	5,472	133	5,470	3,854	133	132	4	4	51
Hotels, Hotel Services and Food	846	134	846	843	134	134	18	-	34
Transportation and Storage	1,100	46	1,093	775	46	45	-	-	41
Communication and Computer Services	208	28	190	136	28	27	-	-	13
Financial Services	11,790	[6]267	2,486	1,734	130	112	6	(4)	56
Of which: Federal agencies in the U.S. [8]	8,317	-	-	-	-	-	-	-	-
Other Business Services	2,087	35	2,075	1,476	35	9	(8)	-	21
Public and Community Services	[9]2,629	-	712	705	-	-	-	-	6
Total Commercial	**39,173**	**1,588**	**27,816**	**20,057**	**1,444**	**1,074**	**45**	**2**	**411**
Private Individuals - Housing Loans	77	3	77	77	3	-	-	-	1
Private Individuals - Other	1,797	4	1,794	1,180	4	2	4	5	11
Total Public	**41,047**	**1,595**	**29,687**	**21,314**	**1,451**	**1,076**	**49**	**7**	**423**
Banks Outside of Israel	8,780	-	5,006	4,776	-	-	1	-	3
Governments Outside of Israel	1,062	-	29	29	-	-	-	-	-
Total Lending Activity Outside of Israel	**50,889**	**1,595**	**34,722**	**26,119**	**1,451**	**1,076**	**50**	**7**	**426**
Total	**221,152**	**7,155**	**179,231**	**125,489**	**6,993**	**3,841**	**75**	**38**	**2,359**
Excluding balances classified as assets and liabilities held for sale – see Note 18	4,131	-	2,186	2,074	-	-	-	-	1

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, credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, and guarantees and liabilities on account of clients in an amount of NIS 125,489, 37,163, 624, 3,575, 54,301 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 extent of arrears, and housing loans in respect of which no allowance is made according to the extent of 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 138 million.

(7) Including acquisition groups in an amount of NIS 741 millions.

(8) Including mortgage backed securities in the amount of NIS 2,581 millions, issued by GNMA and in the amount of NIS 5,736 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and bonds of states in the U.S.

(10) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,535 million.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	March 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	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions								
Lending Activity in Israel									
Agriculture	1,176	82	1,173	944	82	32	5	-	30
Industry	16,623	768	16,391	11,424	761	553	12	14	244
Construction and Real Estate - Construction	[7]14,241	1,059	14,198	5,675	1,057	698	9	3	189
Construction and Real Estate - Real Estate Activity	9,690	529	9,630	7,839	530	447	1	(2)	105
Electricity and Water	2,964	15	2,315	1,655	15	-	-	-	6
Commerce	13,233	687	13,013	10,525	687	197	19	3	178
Hotels, Hotel Services and Food	2,111	307	2,106	1,825	308	282	(2)	(2)	18
Transportation and Storage	3,384	92	3,326	2,763	81	49	(2)	-	23
Communication and Computer Services	2,567	324	2,438	2,071	323	80	3	-	39
Financial Services	10,884	382	9,409	7,192	326	170	2	(4)	166
Other Business Services	7,066	198	7,038	5,141	198	121	13	4	86
Public and Community Services	2,126	108	2,116	1,494	108	95	1	-	14
Total Commercial	**86,065**	**4,551**	**83,153**	**58,548**	**4,476**	**2,724**	**61**	**16**	**1,098**
Private Individuals - Housing Loans	20,553	527	20,551	19,588	527	-	19	-	244
Private Individuals - Other	36,659	393	36,632	17,651	393	126	(11)	14	354
Total Public	**143,277**	**5,471**	**140,336**	**95,787**	**5,396**	**2,850**	**69**	**30**	**1,696**
Banks in Israel	3,135	-	1,892	1,568	-	-	-	-	-
Israeli Government	30,990	-	2,165	1,633	-	-	-	-	-
Total Lending Activity in Israel	**177,402**	**5,471**	**144,393**	**98,988**	**5,396**	**2,850**	**69**	**30**	**1,696**
Lending Activity Outside of Israel									
Agriculture	354	-	354	223	-	-	1	-	3
Industry	6,823	338	6,787	3,938	338	276	-	-	100
Construction and Real Estate - Construction	1,217	526	1,214	1,158	526	525	(1)	5	136
Construction and Real Estate - Real Estate Activity	7,495	1,115	7,362	6,258	1,108	913	(4)	7	80
Electricity and Water	425	-	425	344	-	-	-	-	3
Commerce	6,506	202	6,495	4,260	202	164	48	86	70
Hotels, Hotel Services and Food	795	129	795	775	129	129	-	-	12
Transportation and Storage	969	50	968	674	50	50	4	-	26
Communication and Computer Services	174	1	173	107	1	-	-	-	2
Financial Services	15,258	[6]354	2,992	1,836	173	151	17	4	54
Of which: Federal agencies in the U.S. [8]	9,785	-	-	-	-	-	-	-	-
Other Business Services	2,242	204	2,231	1,602	204	69	12	10	54
Public and Community Services	[9]2,253	-	55	50	-	-	(1)	-	1
Total Commercial	**44,511**	**2,919**	**29,851**	**21,225**	**2,731**	**2,277**	**76**	**112**	**541**
Private Individuals - Housing Loans	50	1	50	50	1	-	-	-	-
Private Individuals - Other	1,773	11	1,749	1,162	11	10	-	-	16
Total Public	**46,334**	**2,931**	**31,650**	**22,437**	**2,743**	**2,287**	**76**	**112**	**557**
Banks Outside of Israel	8,723	46	5,162	4,949	-	-	-	-	5
Governments Outside of Israel	1,648	-	72	72	-	-	-	-	-
Total Lending Activity Outside of Israel	**56,705**	**2,977**	**36,884**	**27,458**	**2,743**	**2,287**	**76**	**112**	**562**
Total	**234,107**	**8,448**	**181,277**	**126,446**	**8,139**	**5,137**	**145**	**142**	**2,258**

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, credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, and guarantees and liabilities on account of clients in an amount of NIS 126,446, 47,437, 632, 3,377, 56,215 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding 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 a allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of 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 181 million.

(7) Including acquisition groups in an amount of NIS 728 millions.

(8) Including mortgage backed securities in the amount of NIS 3,359 millions, issued by GNMA and in the amount of NIS 6,426 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and bonds of states in the U.S.

(10) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,383 million.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	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
Total Commercial	**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
Total Commercial	**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 18	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, credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, and 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 extent of arrears, and housing loans in respect of which no allowance is made according to the extent of 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 bonds of states in the U.S.

(10) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,682 million.

CERTIFICATION

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of March 31, 2014 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Ms. Lilach Asher-Topilsky
President & Chief Executive Officer

May 22, 2014

CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of March 31, 2014 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Joseph Beressi
Senior Executive Vice President
Chief Accountant

May 22, 2014

Somekh Chaikin

REVIEW REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD.

INTRODUCTION

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at March 31, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for this interim period in accordance with Israeli GAAP regarding financial reporting for this interim period and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

SCOPE OF REVIEW

We have conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel, and a review standard applied in the review of banking institutions according to the guidelines and directives of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with the instructions and directives of the Supervisor of Banks.

EMPHASIS OF A MATTER

Without qualifying our above conclusion, we call attention to the Note 7 B items 4.3 and 5 concerning motion to approve certain lawsuits as class action suits and with regard to other claims against the Bank and investee companies.

Somekh Chaikin	Ziv Haft
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)
May 22, 2014	

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited March 31, 2014	Unaudited March 31, 2013	Audited December 31, 2013
		in NIS millions		
Assets				
Cash and deposits with banks		26,197	22,328	25,319
Securities (of which: 6,043, 5,765, 6,047 respectively, pledged to lenders)	2	39,541	48,140	41,325
Securities borrowed or purchased under resale agreements		624	632	102
Credit to the public	3	118,049	118,224	117,993
Allowance for credit losses	3	(2,178)	(2,069)	(2,134)
Credit to the public, net		115,871	116,155	115,859
Credit to Governments		1,833	1,705	1,835
Investments in affiliated companies	14	139	1,757	1,668
Buildings and equipment		2,642	2,887	2,696
Intangible assets and goodwill		142	142	142
Assets in respect of derivative instruments	8	3,576	3,377	4,080
Other assets		3,215	3,010	3,277
Noncurrent assets held for sale	18	4,216	2	4,204
Total assets		**197,996**	**200,135**	**200,507**
Liabilities and Equity				
Deposits from the public	4	147,779	151,933	148,928
Deposits from banks		3,774	3,276	4,213
Deposits from the Government		1,007	1,062	972
Securities loaned or sold under repurchase agreements		3,748	4,818	3,644
Subordinated capital notes		10,825	11,928	11,664
Liabilities in respect of derivative instruments	8	4,124	4,550	4,898
Other liabilities (1)		9,957	10,315	9,719
Liabilities held for sale		3,940	-	3,931
Total liabilities		185,154	187,882	187,969
Equity attributed to the Bank's shareholders		12,534	11,948	12,233
Non-controlling rights in consolidated companies		308	305	305
Total equity		12,842	12,253	12,538
Total Liabilities and Equity		**197,996**	**200,135**	**200,507**

Footnote:
(1) Of which NIS 177 million, NIS 184 million and NIS 184 million, as of March 31, 2014, March 31, 2013 and December 31, 2013, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

The notes to the condensed financial statements form an integral part thereof.

May 22, 2014

Joseph Beressi
Senior Executive Vice President,
Chief Accountant

Ms. Lilach Asher-Topilsky
President &
Chief Executive Officer

Dr. Yossi Bachar
Chairman of the
Board of Directors

CONDENSED CONSOLIDATED STATEMENT OF INCOME

		Consolidated		
		Unaudited		Audited
		For the three months ended March 31,		For the year ended December 31,
	Notes	2014	2013	2013
		in NIS millions		
Interest income[2]		1,324	1,668	6,822
Interest expenses		306	624	2,572
Interest income, net	10	1,018	1,044	4,250
Credit loss expenses	3a	75	145	580
Net interest income after credit loss expenses		**943**	**899**	**3,670**
Non-interest Income				
Non-interest financing income	11	124	190	632
Commissions[2]		631	668	2,704
Other income		52	37	183
Total non-interest income		**807**	**895**	**3,519**
Operating and other Expenses				
Salaries and related expenses		936	876	3,619
Maintenance and depreciation of buildings and equipment		298	307	1,247
Other expenses		260	289	1,152
Total operating and other expenses		**1,494**	**1,472**	**6,018**
Income before taxes		256	322	1,171
Provision for taxes on income		97	118	305
Income after taxes		159	204	866
Bank's share in income of affiliated companies, net of tax effect		[1][3]15	68	[1]45
Net income:				
Before attribution to non-controlling rights holders in consolidated companies		174	272	911
Attributed to the non-controlling rights holders in consolidated companies		(9)	(9)	(37)
Net income attributed to the Bank's shareholders		**165**	**263**	**874**
Earnings per share of NIS 0.1 par value (in NIS)				
Total earnings per share attributed to the Bank's shareholders		**0.16**	**0.25**	**0.83**

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14 C and D.

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1E(1).

(3) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see Note 14E.

The notes to the condensed financial statements form an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME[(1)]

	Unaudited		Audited
	For the three months ended March 31,		For the year ended December 31,
	2014	2013	2013
	in NIS millions		
Net income before attribution to non-controlling rights holders in consolidated companies	174	272	911
Net income attributed to non-controlling rights holders in consolidated companies	(9)	(9)	(37)
Net income attributed to the Bank's shareholders	**165**	**263**	**874**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for- sale securities at fair value	171	(123)	(407)
Financial statements translation adjustments, net after hedge effects	15	(71)	(223)
Net income in respect of cash flows hedge	1	2	7
Other comprehensive income (loss), before taxes	**187**	**(192)**	**(623)**
Effect of attributed taxes	(51)	39	167
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**136**	**(153)**	**(456)**
Comprehensive income, before attribution to non-controlling interests holders in consolidated companies	310	119	455
Comprehensive income, attributed to non-controlling interests holders in consolidated companies	(9)	(9)	(37)
Comprehensive income, attributed to the Bank's shareholders	**301**	**110**	**418**

Footnote:
(1) See Note 13.

The notes to the condensed financial statements form an integral part thereof.

CONDENSED STATEMENT OF CHANGES IN EQUITY

A. For the three months ended March 31, 2014 and 2013 (unaudited)
Balance at December 31, 2013 (audited)
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive income, net after tax effect
Balance at March 31, 2014
Balance at December 31, 2012 (audited)
Net income for the period
Other comprehensive loss, net after tax effect
Balance at March 31, 2013
B. For the year of 2013 (audited)
Balance at December 31, 2012
Net income for the year
Dividend to non-controlling interests holders in consolidated companies
Provision for tax on an investment in an affiliated company in respect of items recorded in the equity
Other comprehensive loss, net after tax effect
Balance at December 31, 2013

The notes to the condensed financial statements are an integral part thereof.

		Capital reserves							
	Share capital	Share premium	Other	Total paid up share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling interests holders in consolidated subsidiaries	Total equity
	in NIS millions								
	665	3,434	212	4,311	(132)	8,054	12,233	305	12,538
	-	-	-	-	-	165	165	9	174
	-	-	-	-	-	-	-	(6)	(6)
	-	-	-	-	136	-	136	-	136
	665	**3,434**	**212**	**4,311**	**4**	**8,219**	**12,534**	**308**	**12,842**
	665	3,434	212	4,311	324	7,203	11,838	296	12,134
	-	-	-	-	-	263	263	9	272
	-	-	-	-	(153)	-	(153)	-	(153)
	665	**3,434**	**212**	**4,311**	**171**	**7,466**	**11,948**	**305**	**12,253**
	665	3,434	212	4,311	324	7,203	11,838	296	12,134
	-	-	-	-	-	874	874	37	911
	-	-	-	-	-	-	-	(28)	(28)
	-	-	-	-	-	(23)	(23)	-	(23)
	-	-	-	-	(456)	-	(456)	-	(456)
	665	**3,434**	**212**	**4,311**	**(132)**	**8,054**	**12,233**	**305**	**12,538**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited		Audited
	For the three months ended March 31		For the year ended
	2014	2013	31.12.13
	in NIS millions		
Cash Flows from Operating Activities			
Net profit before attribution to non-controlling rights holders in consolidated companies	174	272	911
Adjustments necessary to present cash flows from current operations:			
Bank's share in undistributed income of affiliated companies	(15)	(38)	(159)
Depreciation of buildings and equipment (including impairment in value)	141	150	619
Provision for impairment of securities	-	2	33
Credit loss expenses	223	279	1,036
Gain on sale of credit portfolio	-	(10)	(30)
Gain on sale of available-for-sale and held to maturity securities	(90)	(175)	(511)
Realized and non realized gain from adjustment to fair value of trading securities	(29)	(1)	(10)
Provision for impairment of company[(1)]	-	-	185
Gain from realization at an investment in investee companies	-	-	(23)
Gain on realization of buildings and equipment	(2)	-	-
Net deferred taxes	56	(27)	(214)
Severance pay – increase in excess of provision over the deposits	15	30	(42)
Net change in current assets:			
Deposits with banks	(631)	236	(401)
Credit to the public, net	(308)	[(2)]1,098	496
Credit to the Government	2	(9)	(163)
Securities borrowed or purchased under resale agreements	(522)	(245)	285
Assets in respect of derivative instruments	504	350	(353)
Trading securities	873	(1,375)	773
Other assets	(82)	(285)	(282)
Noncurrent assets held for sale	-	-	(977)
Effect of changes in exchange rate on cash and cash equivalent balances	31	(80)	(185)
Accrual differences included in investment and financing activities	(47)	1,122	1,828
Net change in current liabilities:			
Deposits from banks	(439)	(444)	508
Deposits from the public	(1,074)	(417)	90
Deposits from the Government	35	57	(33)
securities borrowed or purchased under resale agreements	104	(634)	(1,808)
Liabilities in respect of derivative instruments	(774)	(158)	197
Other liabilities	230	520	14
Adjustments in respect of exchange rate differences on current assets and liabilities	4	(10)	(73)
Net Cash Flows from Operating Activities	**(1,621)**	**208**	**1,711**

Footnote:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14.

(2) Reclassified - sorting of the mount relating to a sale of a credit portfolio out of the change in credit to the public.

The notes to the condensed financial statements are an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Unaudited		Audited
	For the three months ended March 31		For the year ended
	2014	2013	2013
	in NIS millions		
Cash Flows from Investing Activities			
Acquisition of held-to-maturity bonds	-	(468)	(1,125)
Proceeds from redemption of held-to-maturity bonds	91	303	658
Acquisition of available-for-sale securities	(2,412)	(7,510)	(21,960)
Proceeds from sale of available-for-sale securities	2,384	3,860	14,083
Gain on sale of credit portfolio	-	(1)81	547
Proceeds from redemption of available-for-sale securities	2,566	2,313	8,819
Reduction of (additional) investment in an activity in an investee company	-	8	(24)
Proceeds of the sale of investments in investee companies and dividend	31	-	53
Acquisition of buildings and equipment	(88)	(89)	(396)
Proceeds from sale of buildings and equipment	6	-	4
Net Cash Flows from Investing Activities	**2,578**	**(1,502)**	**659**
Cash Flows from Financing Activities			
Redemption of subordinated capital notes	(686)	(255)	(884)
Dividend to non-controlling rights holders in consolidated companies	(6)	-	(28)
Net cash flows from Financing Activities	**(692)**	**(255)**	**(912)**
Increase (decrease) in cash	265	(1,549)	1,458
Cash balance at beginning of period	23,765	22,265	22,265
Effect of changes in exchange rate on cash and cash equivalent balances	(19)	22	42
Cash balance at end of period	**24,011**	**20,738**	**23,765**
Interest and taxes paid and/or received			
Interest received	1,796	1,954	6,944
Interest paid	(683)	(870)	(2,763)
Dividends received	35	2	80
Taxes on income paid	(107)	(191)	(474)

Footnote:
(1) Reclassified - sorting of the mount relating to a sale of a credit portfolio out of the change in credit to the public.

The notes to the condensed financial statements are an integral part thereof.

ANNEX - INVESTING AND FINANCIAL ACTIVITIES NOT IN CASH IN THE REVIEWED PERIOD

	Unaudited		Audited
	For the three months ended March 31		For the year ended
	2014	2013	2013
	in NIS millions		
The Bank:			
Purchase of fixed assets	2	3	28
Lending of securities	(73)	(7)	798

The notes to the condensed financial statements are an integral part thereof.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A. GENERAL. Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of March 31, 2014, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in affiliated companies. The interim financial statements are prepared in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with directives and guidelines of the Supervisor of Banks with respect to the "quarterly report of a banking corporation", and they do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2013 and the accompanying notes.

The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2013 except as detailed in item E hereunder.

B. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements were approved for publication by the Bank's Board of Directors on May 22, 2014.

C. PRINCIPLES OF FINANCIAL REPORTING

The interim financial statements have been prepared according to the following principles:

- Issues within the core banking business - in accordance with the directives and guidelines of the Supervisor of Banks and in accordance with generally accepted accounting principles applying to banks in the United States that had been adopted within the framework of the public reporting directives of the Supervisor of Banks;
- Issues outside the core banking business - in accordance with generally accepted accounting principles in Israel and in accordance with certain International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) relating thereto, all according to the directives and guidelines of the Supervisor of Banks on such matters.

The international standards are being applied in accordance with the principles detailed in the financial statements as of December 31, 2013.

D. USE OF ASSESSMENTS AND DISCRETION

In preparing the interim financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments.

Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

E. INITIAL IMPLEMENTATION OF ACCOUNTING STANDARDS, UPDATES OF ACCOUNTING STANDARDS AND DIRECTIVES OF THE SUPERVISOR OF BANKS

As from the period beginning January 1, 2014, the Bank implements accounting standards and directives as detailed hereunder:

(1) Instructions regarding the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income (see item 1 below);

(2) Instruction in the matter of "Reporting amounts that had been reclassified out of accumulated other comprehensive income" (see item 2 below).

Following is a description of the changes in the accounting policy adopted in these interim financial statements and a description of the manner and effect of the initial implementation, if at all:

1. **Instructions regarding the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income (FAS 91).** 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".

1. ACCOUNTING POLICIES (CONTINUED)

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.

Commissions regarding the setting-up of credit facilities. Commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of income, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

Credit allocation commissions. Credit allocation commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitment being realized is not remote.

Changes in terms of loans. In cases of refinancing or of restructuring of non-problematic loans, the Bank examines the materiality of the changes in terms of the loan. Accordingly, the Bank examines whether the present value of future cash flows under the revised terms of the loan differs by at least 10% from the present value of the remaining cash flows under the existing terms, or if the transaction involve a change in the currency of the loan. In such cases, the refinanced loan is treated as a new loan, and accordingly the outstanding commissions not yet amortized as well as early repayment commissions collected from the customer in respect of the change in the terms of credit are recognized immediately in the statement of income. Otherwise, the said commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

Early repayment commission. Early repayment commissions charged in respect of early repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years, or over the remaining period of the loan, whichever is shorter. Commissions charged in respect of early repayments made subsequently to January 1, 2014, are recognized immediately as part of interest income.

The initial implementation and its effect. The directives are implemented as from January 1, 2014. The implementation of the Directive will have an adverse effect in the first years of its implementation.

The instruction is being applied by way of "from now onwards" on transactions made or renewed as from date of initial application, where as part of the implementation of the instruction the Bank has changed the manner of income recognition and the classification of the commissions as part of interest income or commission income, depending on the substance of the commission, yield adjustment or other commission.

Following is the disclosure regarding the effect of the implementation of the instruction on net interest income, non-interest income (commissions) and the Bank`s net income in the period of the three months ended March 31, 2014.

1. ACCOUNTING POLICIES (CONTINUED)

	Unaudited		
	For the three months ended March 31,2014		
	In accordance with the prior reporting instructions	Effect of the implementation of the instruction regarding the measurement of interest income	In accordance with the instruction regarding the measurement of interest income
	in NIS millions		
Interest income	1,291	33	1,324
Commissions	687	(56)	631
Net income	179	(14)	165

2. **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.

   Initial implementation and its effect. The instructions included in the circular were retroactively applied as from January 1, 2014. Implementation of these instructions did not have a material effect, except for the presentation effect on the Note on accumulated other comprehensive income (loss) and on the note regarding non-interest financing income.

F. 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.

   The Standards as regards to issues which are not part of the core banking business 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 3 below)

2. **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.

1. ACCOUNTING POLICIES (CONTINUED)

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.

3. **Adoption of U.S. accounting principles as regards employee rights.** The Supervisor of Banks issued on April 10, 2014, a circular in this matter. The circular 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. The circular 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 circular 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.

   The circular states, among other things, 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.

   In accordance with the circular published by the Supervisor of Banks, it is required to, at least, include in its interim financial statements for 2014, 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.

   The Bank estimates that the expected effect on its equity at March 31, 2014, of only the change in the discount rate amounts to NIS 619 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.

4. **Reporting according to U.S. generally accepted accounting principles in the matter of Distinguishing Liabilities from Equity.** On April 24, 2014, the Supervisor of Banks issued a draft letter in the matter of reporting according to U.S. generally accepted accounting principles regarding distinguishing liabilities from equity. According to the draft letter, it is required to apply the U.S. generally accepted accounting principles in the matter of classification of financial instruments as equity or liabilities, including hybrid instruments. For this purpose, it would be required to apply, among other things the presentation, measurement and disclosure principles determined within the framework of the following topics in the codification:

   - Topic 480 regarding "Distinguishing Liabilities From Equity";
   - Topic 470-20 regarding "Debt with Conversion and Other Options"; and
   - Topic 505-30 regarding "Treasury stock".

   The effective date stated in the draft is January 1, 2015, whereupon the initial implementation it is required to act in accordance with the transitional instructions determined in respect of topics in the codification, as detailed above, including the restatement of the comparative data, where relevant.

2. SECURITIES - CONSOLIDATED

A. Composition

	Unaudited				
	March 31,2014				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,655	3,655	334	-	3,989
Of Israeli financial institutions	86	86	6	-	92
Of foreign financial institutions	65	65	-	1	64
Mortgage-backed-securities or Assets -backed-securities	1,244	1,244	19	27	1,236
Of others abroad[(6)]	1,985	1,985	79	40	2,024
Total held-to-maturity bonds	**7,035**	**[(2)]7,035**	**438**	**68**	**7,405**

	Unaudited				
	March 31,2014				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[(1)]
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	17,251	16,769	482	-	17,251
Of foreign governments	409	414	4	9	409
Of Israeli financial institutions	632	611	21	-	632
Of foreign financial institutions	2,733	2,815	54	136	2,733
Mortgage-backed-securities or Assets -backed-securities	7,082	7,200	29	147	7,082
Of others in Israel	766	721	45	-	766
Of others abroad[(7)]	59	64	-	5	59
Total bonds	28,932	28,594	635	297	[(2)]28,932
Shares	2,371	2,330	42	1	[(9)(4)]2,371
Total available-for-sale securities	**31,303**	**30,924**	**[(3)]677**	**[(3)]298**	**31,303**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	March 31,2014				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,059	1,051	8	-	1,059
Of Israeli financial institutions	2	2	-	-	2
Of foreign financial institutions	9	9	-	-	9
Mortgage-backed-securities or Assets - backed-securities	48	49	-	1	48
Of others in Israel	69	67	2	-	69
Of others abroad	4	5	-	1	4
Total bonds	1,191	1,183	10	2	1,191
Shares	12	14	-	2	12
Total trading securities	**1,203**	**1,197**	**[(5)]10**	**[(5)]4**	**1,203**
Total securities[(8)]	**39,541**	**39,156**	**1,125**	**370**	**39,911**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 832 million (approx. US$ 239 million) and from the available for sale portfolio with a market value of NIS 3,570 million (approx. US$ 1,024 million).

(3) Included in "Accumulated other comprehensive income".

(4) Including shares, the fair value of which is not readily available, stated at cost of NIS 755 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,949 million (book value).

(7) Including U.S. Government agencies, in an amount of NIS 57 million (Book value).

(8) Excluding balances classified as assets and liabilities held for sale - see Note 18.

(9) For details regarding the classification of the investment in shares of FIBI, see Note 14E.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	March 31,2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,193	3,193	241	-	3,434
Of foreign governments	29	29	2	-	31
Of Israeli financial institutions	88	88	4	-	92
Of foreign financial institutions	62	62	1	2	61
Mortgage-backed-securities or Assets - backed-securities	1,391	1,391	39	3	1,427
Of others abroad(6)	2,239	2,239	130	12	2,357
Total held-to-maturity bonds	**7,002**	**(2)7,002**	**417**	**17**	**7,402**

	Unaudited				
	March 31,2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value(1)
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	21,367	20,917	454	4	21,367
Of foreign governments	911	906	6	1	911
Of Israeli financial institutions	711	690	21	-	711
Of foreign financial institutions	2,809	2,917	44	152	2,809
Mortgage-backed-securities or Assets - backed-securities	9,518	9,468	110	60	9,518
Of others in Israel	722	687	37	2	722
Of others abroad(7)	72	75	-	3	72
Total bonds	36,110	35,660	672	222	(2)36,110
Shares	699	692	7	-	(4)699
Total available-for-sale securities	**36,809**	**36,352**	**(3)679**	**(3)222**	**36,809**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	March 31,2013				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[1]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	4,184	4,177	7	-	4,184
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	18	18	-	-	18
Of foreign financial institutions	25	41	-	16	25
Mortgage-backed-securities or Assets - backed-securities	45	45	-	-	45
Of others in Israel	49	50	-	1	49
Of others abroad	2	3	-	1	2
Total bonds	4,327	4,338	7	18	4,327
Shares	2	4	-	2	2
Total trading securities	**4,329**	**4,342**	**(5)7**	**(5)20**	**4,329**
Total securities	**48,140**	**47,696**	**1,103**	**259**	**48,540**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 1,028 million (approx. US$ 282 million) and from the available for sale portfolio with a market value of NIS 4,753 million (approx. US$ 1,303 million).

(3) Included in "Accumulated other comprehensive income".

(4) Including shares, the fair value of which is not readily available, stated at cost of NIS 619 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 2,229 million (book value).

(7) Including U.S. Government agencies, in amount of NIS 62 million (book value).

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	Audited				
	December 31,2013				
	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[(6)]	1,988	1,988	61	71	1,978
Total held-to-maturity bonds	**7,174**	**[(2)]7,174**	**365**	**115**	**7,424**

	Book value	Amortized cost (in shares - cost)	Accumulated other comprehensive income: Profits	Accumulated other comprehensive income: Losses	Fair value[(1)]
	Audited				
	December 31,2013				
	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[(7)]	52	61	-	9	52
Total bonds	31,108	30,940	544	376	[(2)]31,108
Shares	852	838	15	1	[(4)]852
Total available-for-sale securities	**31,960**	**31,778**	**[(3)]559**	**[(3)]377**	**31,960**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Audited				
	December 31,2013				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(3) Trading Securities					
Bonds and 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**	[(5)]**4**	[(5)]**8**	**2,191**
Total securities[(8)]	**41,325**	**41,147**	**928**	**500**	**41,575**

Footnotes::

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas 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).

(3) Included in "Accumulated other comprehensive income".

(4) Including shares, the fair value of which is not readily available, stated at cost of NIS 751 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,971 million (book value).

(7) Including U.S. Government agencies, in an amount of NIS 52 million (book value).

(8) Excluding balances classified as assets and liabilities held for sale - see Note 18.

2. SECURITIES - CONSOLIDATED (CONTINUED)

B. 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

	Unaudited							
	March 31,2014							
	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	1	-	1
Mortgage-backed-securities and Assets - backed-securities	699	23	-	23	212	4	-	4
Of others abroad	438	20	-	20	323	20	-	20
Total held-to-maturity bonds	**1,137**	**43**	**-**	**43**	**566**	**25**	**-**	**25**

	Unaudited							
	March 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	-	-	-	-	33	2	-	2
Mortgage-backed-securities and Assets - backed-securities	197	1	-	1	81	2	-	2
Of others abroad	559	12	-	12	15	*-	-	-
Total held-to-maturity bonds	**756**	**13**	**-**	**13**	**129**	**4**	**-**	**4**

	Audited							
	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**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

C. 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

	Unaudited							
	March 31,2014							
	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 loans:								
Of the Israeli Government	204	*-	-	-	-	-	-	-
Of foreign governments	200	9	-	9	-	-	-	-
Of foreign financial institutions	76	*-	-	-	885	104	32	136
Mortgage-backed-securities and Assets - backed-securities	3,603	95	-	95	1,367	52	-	52
Of others in Israel	-	-	-	-	7	*-	-	-
Of others abroad	-	-	-	-	57	5	-	5
Total bonds	4,083	104	-	104	2,316	161	32	193
Shares	7	*-	-	-	8	1	-	1
Total available-for-sale securities	**4,090**	**104**	**-**	**104**	**2,324**	**162**	**32**	**194**

	Unaudited							
	March 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 loans:								
Of the Israeli Government	941	3	-	3	175	1	-	1
Of foreign governments	285	1	-	1	-	-	-	-
Of foreign financial institutions	370	4	-	4	1,008	101	47	148
Mortgage-backed-securities and Assets - backed-securities	3,529	48	-	48	395	12	-	12
Of others in Israel	3	*-	-	-	57	2	-	2
Of others abroad	62	3	-	3	-	-	-	-
Total bonds	5,190	59	-	59	1,635	116	47	163
Shares	9	*-	-	-	-	-	-	-
Total available-for-sale securities	**5,199**	**59**	**-**	**59**	**1,635**	**116**	**47**	**163**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

C. 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 (Continued)

	Audited							
	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 loans:								
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**

*Loss amount lower then NIS 1 million.

D. The securities portfolio, as of March 31, 2014, includes investments in asset backed securities, primarily investment in mortgage - backed securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed Securities - MBS", "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 3 to the financial statements as of December 31, 2013.

E. Most of the unrealized losses at March 31, 2014 are attributed to certain factors, including changes in market interest rate subsequent to acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it's relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them, pursuant to the investment contracts.

Since the Bank and the relevant consolidated subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for debt securities, might not be until maturity), the Bank and the relevant consolidated subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at March 31, 2014.

F. The securities portfolio of the Discount Group as at March 31, 2014, includes a direct investment in bonds of the Federal Home Loan Bank (FHLB), Fannie Mae and Freddie Mac (hereinafter: "the Federal Agencies"), which are being held by IDB New York, in an amount of US$25 million (NIS 87 million) similar to December 31, 2013 (NIS 87 million).

G. **Fair value presentation.** The balances of securities as of March 31, 2014, March 31, 2013 and December 31, 2013, include securities amounting to NIS 31,751 million, NIS 40,519 million and NIS 33,400 million, respectively, that are presented at fair value.

2. SECURITIES - CONSOLIDATED (CONTINUED)

H. Additional details (consolidated) regarding mortgage and asset backed securities

	Unaudited			
	March 31,2014			
	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	492	3	2	493
Securities issued by FHLMC and FNMA	2,497	16	43	2,470
Total mortgage-backed pass-through securities	**2,989**	**19**	**45**	**2,963**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	4,192	10	102	4,100
Other mortgage-backed securities	19	-	*-	19
Total available-for-sale other mortgage-backed securities	**4,211**	**10**	**102**	**4,119**
Total available-for-sale MBS securities	**7,200**	**29**	**147**	**7,082**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	49	3	-	52
Securities issued by FHLMC and FNMA	38	2	-	40
Total mortgage-backed pass-through securities	**87**	**5**	**-**	**92**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,119	6	27	1,098
Other mortgage-backed securities	38	8	-	46
Total held-to-maturity other mortgage-backed securities	**1,157**	**14**	**27**	**1,144**
Total held-to-maturity MBS securities	**1,244**	**19**	**27**	**1,236**
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	48	-	1	47
Total mortgage-backed trading securities (MBS)	**49**	**-**	**1**	**48**
Total mortgage-backed securities (MBS)	**8,493**	**48**	**175**	**8,366**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

H. Additional details (consolidated) regarding mortgage and asset backed securities (continued)

	Unaudited			
	March 31,2013			
	Amortized cost	Unrecognized gains from adjustment to fair value(1)	Unrecognized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	171	2	*-	173
Securities issued by FHLMC and FNMA	2,658	60	4	2,714
Total mortgage-backed pass-through securities	**2,829**	**62**	**4**	**2,887**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,526	40	56	5,510
Other mortgage-backed securities	20	1	-	21
Total available-for-sale other mortgage-backed securities	**5,546**	**41**	**56**	**5,531**
Total available-for-sale MBS securities	**8,375**	**103**	**60**	**8,418**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	73	4	-	77
Securities issued by FHLMC and FNMA	60	3	-	63
Total mortgage-backed pass-through securities	**133**	**7**	**-**	**140**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,211	21	3	1,229
Other mortgage-backed securities	47	11	-	58
Total held-to-maturity other mortgage-backed securities	**1,258**	**32**	**3**	**1,287**
Total held-to-maturity MBS securities	**1,391**	**39**	**3**	**1,427**
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	43	-	*-	43
Total mortgage-backed trading securities (MBS)	**45**	**-**	***-**	**45**
Total mortgage-backed securities (MBS)	**9,811**	**142**	**63**	**9,890**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	1,093	7	*-	1,100
Total asset-backed available-for-sale securities (ABS)	**1,093**	**7**	***-**	**1,100**
Total mortgage and asset-backed securities	**10,904**	**149**	**63**	**10,990**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

H. Additional details (consolidated) regarding mortgage and asset backed securities (continued)

	Audited			
	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 for sale securities-accumulated other comprehensive income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

I. Additional details (consolidated) regarding mortgage and asset backed securities

Additional details regarding mortgage and asset backed securities in unrealized loss position:

	Unaudited			
	March 31, 2014			
	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	201	2	-	-
Securities issued by FHLMC and FNMA	1,258	29	225	14
Total mortgage-backed pass-through securities	**1,459**	**31**	**225**	**14**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,125	63	1,142	39
Other MBS securities	19	*-	-	-
Total other mortgage-backed securities	**2,144**	**63**	**1,142**	**39**
Total available-for-sale MBS securities	**3,603**	**94**	**1,367**	**53**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	676	23	208	4
Total other mortgage-backed securities	**676**	**23**	**208**	**4**
Total held-to-maturity MBS securities	**676**	**23**	**208**	**4**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	25	*-	14	1
Total mortgage-backed trading securities (MBS)	**25**	***-**	**14**	**1**
Total mortgage-backed securities (MBS)	**4,304**	**117**	**1,589**	**58**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

I. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	Unaudited			
	March 31, 2013			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass through securities:				
Securities guaranteed by GNMA	62	*-	-	-
Securities issued by FHLMC and FNMA	556	4	-	-
Total mortgage backed pass through securities	**618**	**4**	**-**	**-**
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,835	44	395	12
Total other mortgage backed securities	**2,835**	**44**	**395**	**12**
Total available-for-sale MBS securities	**3,453**	**48**	**395**	**12**
Held-to-maturity securities				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	196	2	80	1
Total other mortgage backed securities	**196**	**2**	**80**	**1**
Total held-to-maturity MBS securities	**196**	**2**	**80**	**1**
Trading securities				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	18	*-	10	*-
Total mortgage-backed trading securities (MBS)	**18**	***-**	**10**	***-**
Total mortgage-backed securities (MBS)	**3,667**	**50**	**485**	**13**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	76	*-	-	-
Total asset backed available-for-sale securities (ABS)	**76**	***-**	**-**	**-**
Total mortgage and asset backed securities	**3,743**	**50**	**485**	**13**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

I. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	Audited			
	December 31, 2013			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-Backed Securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	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.

J. Information regarding impaired bonds - consolidated

	Unaudited		Audited
	March 31, 2014	March 31, 2013	December 31, 2013
	In NIS millions		
Recorded amount of non accruing interest income impaired bonds	22	83	21

3. 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

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Three months ended March 31, 2014					
Balance of allowance for credit losses, as at December 31, 2013 [1] (audited)	1,709	255	354	2,318	3	2,321
Credit loss expenses	81	(2)	(5)	74	1	75
Accounting write-offs	(113)	-	(73)	(186)	-	(186)
Collection of debts written-off in previous years	91	-	57	148	-	148
Net accounting write-offs	(22)	-	(16)	(38)	-	(38)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at March 31, 2014[1]	**1,769**	**253**	**333**	**2,355**	**4**	**2,359**
Of which: In respect of off-balance sheet credit instruments	144	1	32	177	-	177
	Three months ended March 31, 2013					
Balance of allowance for credit losses, as at December 31, 2012 (audited)	1,636	225	395	2,256	5	2,261
Credit loss expenses	137	19	(11)	145	-	145
Accounting write-offs	(208)	-	(68)	(276)	-	(276)
Collection of debts written-off in previous years	80	-	54	134	-	134
Net accounting write-offs	(128)	-	(14)	(142)	-	(142)
Financial statements translation adjustments	(6)	-	-	(6)	-	(6)
Balance of allowance for credit losses, as at March 31, 2013	**1,639**	**244**	**370**	**2,253**	**5**	**2,258**
Of which: In respect of off-balance sheet credit instruments	149	-	35	184	-	184

Footnote:

(1) Excluding balance classified as assets and liabilities held for sale - see Note 18.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of debts and regarding the debts for which the allowance is computed – consolidated

	Unaudited					
	March 31, 2014					
	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	60,509	-	4,354	64,863	5,966	70,829
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	372	19,906	-	20,278	-	20,278
Group - other	17,183	32	15,693	32,908	1,474	34,382
Total debts	**78,064**	**19,938**	**20,047**	**118,049**	**7,440**	**125,489**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	1,390	-	68	1,458	1	1,459
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	4	(1)251	-	255	-	255
Group - other	231	1	233	465	3	468
Total allowance for Credit Losses	**1,625**	**252**	**301**	**2,178**	**4**	**2,182**
	March 31, 2013					
Recorded amount of debts:						
Examined on a specific basis	(2)63,692	36	(2)2,334	(2)66,062	4,036	(2)70,098
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)254	(2)19,521	-	19,775	-	19,775
Group - other	(2)15,827	(2)80	(2)16,480	(2)32,387	4,186	(2)36,573
Total debts	**79,773**	**19,637**	**18,814**	**118,224**	**8,222**	**126,446**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	(2)1,271	-	(2)64	(2)1,335	-	(2)1,335
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	1	(1)243	-	244	-	244
Group - other	(2)218	1	(2)271	(2)490	5	(2)495
Total allowance for Credit Losses	**1,490**	**244**	**335**	**2,069**	**5**	**2,074**

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of debts and regarding the debts for which the allowance is computed – consolidated

	Audited					
	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**

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 22 million (March 31, 2013 - NIS 12 million, December 31, 2013 - NIS 17 million), computed on a group basis in an amount of NIS 73 million (March 31, 2013- NIS 52 million ,December 31, 2013- NIS 70 million).

(2) Reclassified - improvement of the classification to test routes.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts

1. Credit quality and arrears – consolidated

	Unaudited					
	March 31, 2014					
		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	5,346	92	293	5,731	5	6
Construction and Real Estate - Real Estate Activity	7,918	59	601	8,578	-	3
Financial Services	5,637	1	243	5,881	1	1
Commercial - Other	35,085	1,316	1,416	37,817	25	72
Total Commercial	**53,986**	**1,468**	**2,553**	**58,007**	**31**	**82**
Private Individuals - Housing Loans	19,395	[5]465	-	19,860	430	91
Private Individuals - Other Loans	18,543	233	92	18,868	44	65
Total Public - Lending Activity in Israel	**91,924**	**2,166**	**2,645**	**96,735**	**505**	**238**
Banks in Israel	831	-	-	831	-	-
Government of Israel	1,804	-	-	1,804	-	-
Total Lending Activity in Israel	**94,559**	**2,166**	**2,645**	**99,370**	**505**	**238**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,333	241	602	6,176	-	-
Commercial - Other	13,290	126	465	13,881	-	3
Total Commercial	**18,623**	**367**	**1,067**	**20,057**	**-**	**3**
Private Individuals	1,250	5	2	1,257	4	-
Total Public - Lending Activity Outside of Israel	**19,873**	**372**	**1,069**	**21,314**	**4**	**3**
Foreign banks	4,776	-	-	4,776	-	-
Foreign governments	29	-	-	29	-	-
Total Lending Activity Outside of Israel	**24,678**	**372**	**1,069**	**26,119**	**4**	**3**
Total public	**111,797**	**2,538**	**3,714**	**118,049**	**509**	**241**
Total banks	**5,607**	**-**	**-**	**5,607**	**-**	**-**
Total governments	**1,833**	**-**	**-**	**1,833**	**-**	**-**
Total	**119,237**	**2,538**	**3,714**	**125,489**	**509**	**241**

For footnotes see p. 150.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Unaudited					
	March 31, 2013					
		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	4,933	81	661	5,675	4	12
Construction and Real Estate - Real Estate Activity	7,345	51	443	7,839	2	7
Financial Services	6,865	157	170	7,192	-	1
Commercial - Other	35,437	1,004	1,401	37,842	17	57
Total Commercial	**54,580**	**1,293**	**2,675**	**58,548**	**23**	**77**
Private Individuals - Housing Loans	19,061	[5]527	-	19,588	591	71
Private Individuals - Other Loans	17,265	260	126	17,651	36	77
Total Public - Lending Activity in Israel	**90,906**	**2,080**	**2,801**	**95,787**	**650**	**225**
Banks in Israel	1,568	-	-	1,568	-	-
Government of Israel	1,633	-	-	1,633	-	-
Total Lending Activity in Israel	**94,107**	**2,080**	**2,801**	**98,988**	**650**	**225**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,816	176	1,424	7,416	-	17
Commercial - Other	12,803	257	749	13,809	4	6
Total Commercial	**18,619**	**433**	**2,173**	**21,225**	**4**	**23**
Private Individuals	1,200	2	10	1,212	1	2
Total Public - Lending Activity Outside of Israel	**19,819**	**435**	**2,183**	**22,437**	**5**	**25**
Foreign banks	4,949	-	-	4,949	-	-
Foreign governments	72	-	-	72	-	-
Total Lending Activity Outside of Israel	**24,840**	**435**	**2,183**	**27,458**	**5**	**25**
Total public	**110,725**	**2,515**	**4,984**	**118,224**	**655**	**250**
Total banks	**6,517**	**-**	**-**	**6,517**	**-**	**-**
Total governments	**1,705**	**-**	**-**	**1,705**	**-**	**-**
Total	**118,947**	**2,515**	**4,984**	**126,446**	**655**	**250**

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Audited					
	December 31,2013					
	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	5,308	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**

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) Debts in arrears for between 30 and 89 days which accrue interest income in amount of NIS 106 million (March 31, 2013 - NIS 176 million, December 31, 2013 - NIS 93 million) are classified as unimpaired problematic debts.

(5) Including housing loans in amount of NIS 6 million (March 31, 2013 - NIS 5 million, December 31, 2013 - NIS 7 million) with an 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.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. Impaired debts and specific allowance

	Unaudited				
	March 31, 2014				
	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				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	164	64	129	293	3,929
Construction and Real Estate - Real Estate Activity	250	28	351	601	1,935
Financial Services	195	50	48	243	589
Commercial - Other	804	230	612	1,416	5,431
Total Commercial	**1,413**	**372**	**1,140**	**2,553**	**11,884**
Private Individuals - Housing Loans	-	-	-	-	6
Private Individuals - Other Loans	39	9	53	92	452
Total Public - Lending Activity in Israel	**1,452**	**381**	**1,193**	**2,645**	**12,342**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,452**	**381**	**1,193**	**2,645**	**12,342**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	440	49	162	602	1,274
Commercial - Other	318	106	147	465	695
Total Commercial	**758**	**155**	**309**	**1,067**	**1,969**
Private Individuals	2	1		2	2
Total Public - Lending Activity Outside of Israel	**760**	**156**	**309**	**1,069**	**1,971**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**760**	**156**	**309**	**1,069**	**1,971**
Total public	**2,212**	**537**	**1,502**	**3,714**	**14,313**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,212**	**537**	**1,502**	**3,714**	**14,313**
Of which:					
Measured according to present value of cash flows	1,003	352	656	1,659	
Debts under troubled debt restructurings	929	174	712	1,641	

For footnotes see p. 153.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. Impaired debts and specific allowance (continued)

	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]
	Unaudited				
	March 31, 2013				
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	185	38	476	661	4,729
Construction and Real Estate - Real Estate Activity	123	10	320	443	1,861
Financial Services	158	59	12	170	548
Commercial - Other	503	91	898	1,401	7,028
Total Commercial	**969**	**198**	**1,706**	**2,675**	**14,166**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	65	17	61	126	495
Total Public - Lending Activity in Israel	**1,034**	**215**	**1,767**	**2,801**	**14,661**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,034**	**215**	**1,767**	**2,801**	**14,661**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	1,119	102	305	1,424	1,872
Commercial - Other	605	128	144	749	1,043
Total Commercial	**1,724**	**230**	**449**	**2,173**	**2,915**
Private Individuals	10	8	-	10	11
Total Public - Lending Activity Outside of Israel	**1,734**	**238**	**449**	**2,183**	**2,926**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**1,734**	**238**	**449**	**2,183**	**2,926**
Total public	**2,768**	**453**	**2,216**	**4,984**	**17,587**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,768**	**453**	**2,216**	**4,984**	**17,587**
Of which:					
Measured according to present value of cash flows	1,031	252	958	1,989	
Debts under troubled debt restructurings	1,280	103	968	2,248	

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. Impaired debts and specific allowance (continued)

	Audited				
	December 31, 2013				
	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				
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	

Footnotes:
(1) Recorded amount.
(2) Specific allowance for credit losses.
(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.
(4) Reclassified due to changes in the data of a subsidiary company.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. Average balance and interest income

	Unaudited		
	Three months ended March 31, 2014		
	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis
	In NIS millions		
Lending Activity in Israel			
Public - Commercial			
Construction and Real Estate - Construction	334	1	1
Construction and Real Estate - Real Estate Activity	629	4	4
Financial Services	267	-	-
Commercial - Other	1,496	13	10
Total Commercial	**2,726**	**18**	**15**
Private Individuals - Housing Loans	-	-	-
Private Individuals - Other Loans	102	2	2
Total Public - Lending Activity in Israel	**2,828**	**20**	**17**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total Lending Activity in Israel	**2,828**	**20**	**17**
Lending Activity Outside of Israel			
Public - Commercial			
Construction and Real Estate	563	1	1
Commercial - Other	466	-	-
Total Commercial	**1,029**	**1**	**1**
Private Individuals	2	-	-
Total Public - Lending Activity Outside of Israel	**1,031**	**1**	**1**
Foreign banks	-	-	-
Foreign governments	-	-	-
Total Lending Activity Outside of Israel	**1,031**	**1**	**1**
Total	**3,859**	**(3)21**	**18**

For footnotes see next page

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. Average balance and interest income (continued)

	Unaudited		
	Three months ended March 31, 2013		
	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis
	In NIS millions		
Lending Activity in Israel			
Public - Commercial			
Construction and Real Estate - Construction	714	3	2
Construction and Real Estate - Real Estate Activity	457	1	-
Financial Services	(4)245	-	-
Commercial - Other	1,545	5	3
Total Commercial	**2,961**	**9**	**5**
Private Individuals - Housing Loans	-	-	-
Private Individuals - Other Loans	133	4	1
Total Public - Lending Activity in Israel	**3,094**	**13**	**6**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total Lending Activity in Israel	**3,094**	**13**	**6**
Lending Activity Outside of Israel			
Public - Commercial			
Construction and Real Estate	1,468	1	-
Commercial - Other	(4)813	1	-
Total Commercial	**2,281**	**2**	**-**
Private Individuals	-	-	-
Total Public - Lending Activity Outside of Israel	**2,281**	**2**	**-**
Foreign banks	-	-	-
Foreign governments	-	-	-
Total Lending Activity Outside of Israel	**2,281**	**2**	**-**
Total	**5,375**	**(3)15**	**6**

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amoumt of NIS 48 millions and NIS 61 million for the three months ended March 31, 2014 and March 31, 2013, respectively.

(4) Reclassified - Improvement in the calculation of the data.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated

	Unaudited				
	March 31, 2014				
	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				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	147	-	2	15	164
Construction and Real Estate - Real Estate Activity	341	-	-	34	375
Financial Services	43	-	-	22	65
Commercial - Other	522	-	1	162	685
Total Commercial	**1,053**	**-**	**3**	**233**	**1,289**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	35	-	-	35	70
Total Public - Lending Activity in Israel	**1,088**	**-**	**3**	**268**	**1,359**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,088**	**-**	**3**	**268**	**1,359**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	159	-	-	76	235
Commercial - Other	47	-	-	-	47
Total Commercial	**206**	**-**	**-**	**76**	**282**
Private Individuals		-	-	-	
Total Public - Lending Activity Outside of Israel	**206**	**-**	**-**	**76**	**282**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**206**	**-**	**-**	**76**	**282**
Total	**1,294**	**-**	**3**	**344**	**1,641**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	Unaudited				
	March 31, 2013				
	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				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	176	-	2	52	230
Construction and Real Estate - Real Estate Activity	211	-	-	92	303
Financial Services	35	-	-	4	39
Commercial - Other	404	-	11	282	697
Total Commercial	**826**	**-**	**13**	**430**	**1,269**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	14	-	3	77	94
Total Public - Lending Activity in Israel	**840**	**-**	**16**	**507**	**1,363**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**840**	**-**	**16**	**507**	**1,363**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	677	-	-	66	743
Commercial - Other	59	-	21	62	142
Total Commercial	**736**	**-**	**21**	**128**	**885**
Private Individuals		-	-	-	
Total Public - Lending Activity Outside of Israel	**736**	**-**	**21**	**128**	**885**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**736**	**-**	**21**	**128**	**885**
Total	**1,576**	**-**	**37**	**635**	**2,248**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	Audited				
	December 31, 2013				
	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				
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 Loans	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.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	Unaudited		
	Three months ended March 31, 2014		
	Debt restructuring made during		
	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	44	6	3
Construction and Real Estate - Real Estate Activity	5	81	81
Financial Services	7	1	1
Commercial - Other	138	50	48
Total Commercial	**194**	**138**	**133**
Private Individuals - Housing Loans	-	-	-
Private Individuals - Other Loans	751	13	13
Total Public - Lending Activity in Israel	**945**	**151**	**146**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total Lending Activity in Israel	**945**	**151**	**146**
Lending Activity Outside of Israel			
Public - Commercial			
Construction and Real Estate	1	159	159
Commercial - Other	1	1	1
Total Commercial	**2**	**160**	**160**
Private Individuals			
Total Public - Lending Activity Outside of Israel	**2**	**160**	**160**
Foreign banks	-	-	-
Foreign governments	-	-	-
Total Lending Activity Outside of Israel	**2**	**160**	**160**
Total	**947**	**311**	**306**

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	Unaudited		
	Three months ended March 31, 2013		
	Debt restructuring made durind		
	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	15	38	38
Construction and Real Estate - Real Estate Activity	-	-	-
Financial Services	1	3	3
Commercial - Other	119	47	46
Total Commercial	**135**	**88**	**87**
Private Individuals - Housing Loans	-	-	-
Private Individuals - Other Loans	1,080	18	17
Total Public - Lending Activity in Israel	**1,215**	**106**	**104**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total Lending Activity in Israel	**1,215**	**106**	**104**
Lending Activity Outside of Israel			
Public - Commercial			
Construction and Real Estate	7	108	103
Commercial - Other	9	60	58
Total Commercial	**16**	**168**	**161**
Private Individuals	2	2	2
Total Public - Lending Activity Outside of Israel	**18**	**170**	**163**
Foreign banks	-	-	-
Foreign governments	-	-	-
Total Lending Activity Outside of Israel	**18**	**170**	**163**
Total	**1,233**	**276**	**267**

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	Unaudited	
	Three months ended March 31, 2014	
	Failure of restructured debts[1]	
	Number of contracts	Recorded amount
	In NIS millions	
Lending Activity in Israel		
Public - Commercial		
Construction and Real Estate - Construction	1	[2]-
Commercial - Other	25	1
Total Commercial	**26**	**1**
Private Individuals - Other	484	3
Total Public - Activity in Israel	**510**	**4**
Banks in Israel	-	-
Government of Israel	-	-
Total Activity in Israel	**510**	**4**
Lending Activity Outside of Israel		
Total Public - Activity Outside of Israel	**-**	**-**
Foreign banks	-	-
Foreign governments	-	-
Total Activity Outside of Israel	**-**	**-**
Total	**510**	**4**

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	Unaudited	
	Three months ended March 31, 2013	
	Failure of restructured debts[1][3]	
	Number of contracts	Recorded amount
	In NIS millions	
Lending Activity in Israel		
Public - Commercial		
Construction and Real Estate - Construction	4	2
Commercial - Other	34	7
Total Commercial	**38**	**9**
Private Individuals - Other	1,151	5
Total Public - Activity in Israel	**1,189**	**14**
Banks in Israel	-	-
Government of Israel	-	-
Total Activity in Israel	**1,189**	**14**
Lending Activity Outside of Israel		
Public - Commercial		
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	**1,191**	**14**

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 arrears.

(2) An amount lower than NIS 1 million.

(3) Reclassified - Improvement in the calculation of the data.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES - CONSOLIDATED (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to private consumption;
- Exposure to foreign competition;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent period, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

(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

	March 31, 2014				December 31,2013			
		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	93.0%	97.7%	98.3%	94.7%	92.4%	97.6%	98.2%	94.3%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	2.4%	2.3%	1.2%	2.2%	2.8%	2.4%	1.3%	2.5%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	4.6%	-	0.5%	3.1%	4.8%	-	0.5%	3.3%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	2.1%	1.3%	1.5%	1.8%	2.0%	1.3%	1.6%	1.8%
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)	26.2%	53.9%	90.3%	31.1%	23.3%	53.3%	91.0%	28.4%

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

The period in arrears of debt is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt examined on a specific basis is classified as impaired when payments of principal or interest in respect thereof are in arrears of ninety days or over, except where the debt is well secured and is in the process of collection.

A principal indication for the quality of the Bank's credit portfolio is the ratio of performing debts to problematic debts. During the first three months of 2014, the rate of performing credit to the public increased, stemming mainly from the commercial sector. This increase was accompanied by a decline in impaired credit and in unimpaired problematic credit.

Balances for the period end, according to Loan-to-Value (LTV)[1] 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			
		Unaudited			
		March 31, 2014			
First degree pledge: financing ratio	Up to 60%	11,815	293	7,849	259
	Over 60%	7,927	76	5,348	64
Second degree pledge or without pledge		568	19	333	1,189
Total		**20,310**	**388**	**13,530**	**1,512**
		Unaudited			
		March 31, 2013			
First degree pledge: financing ratio	Up to 60%	10,979	240	7,262	277
	Over 60%	8,668	106	5,815	63
Second degree pledge or without pledge		451	(2)11	(2)227	1,008
Total		**20,098**	**357**	**13,304**	**1,348**
		Audited			
		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**

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 improvement of the data.

3. 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:

	Unaudited									
	For the three months ended March 31, 2014					For the three months ended March 31, 2013				
	Credit to the public					Credit to the public				
	Commercial	Housing	Other	Credit to governments	Total	Commercial	Housing	Other	Credit to governments	Total
	In NIS millions									
Loans acquired	79	-	-	8	87	-	-	-	18	18
Loans sold	-	-	-	-	-	81	-	-	-	81

For details regarding net profits (losses) on the sale of loans, see Note 11 below.

4. DEPOSITS FROM THE PUBLIC

A. Type of deposits according to location of raising the deposit and type of depositor

	Unaudited		Audited
	March 31		December 31
	2014	2013	2013
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	18,124	(1)13,337	17,159
Interest bearing	17,860	14,813	16,470
Total demand deposits	**35,984**	**28,150**	**33,629**
Time deposits	88,990	(1)97,958	93,176
Total deposits in Israel*	**124,974**	**126,108**	**126,805**
* Of which:			
Private individuals deposits	76,292	73,134	75,231
Institutional bodies deposits	5,847	7,307	(2)7,038
Corporations and others deposits	42,835	45,667	(2)44,536
Outside Israel (3)			
Demand deposits:			
Non-interest bearing	4,292	3,967	4,139
Interest bearing	11,519	13,579	11,085
Total demand deposits	**15,811**	**17,546**	**15,224**
Time deposits	6,994	8,279	6,899
Total deposits outside Israel	**22,805**	**25,825**	**22,123**
Total deposits from the public	**147,779**	**151,933**	**148,928**

Notes:

(1) Reclassified, following an examination of the terms of certain deposits.

(2) Reclassification following the "lifting of the curtain", within the framework of which deposits held by a trust company on behalf of Institutional bodies are directly related to these institutional bodies.

(3) Not including balances classified as assets and liabilities held for sale, see Note 18.

4. DEPOSITS FROM THE PUBLIC (CONTINUED)

B. Deposits from the public according to size, on a consolidated basis

	Unaudited		Audited
	March 31		December 31
	2014	2013	2013
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	54,618	55,158	55,174
Over 1 up to 10	34,931	35,236	35,186
Over 10 up to 100	16,392	14,371	16,603
Over 100 up to 500	11,824	11,927	(1)11,570
Over 500	30,014	35,241	(1)30,395
Total	**147,779**	**151,933**	**148,928**

Note:

1) Reclassification following the "lifting of the curtain", within the framework of which deposits held by a trust company on behalf of Institutional bodies are directly related to these institutional bodies.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS

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, according to which, 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 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". The data presented below (as of January 1, 2014 and March 31, 2014) 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).

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

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

1. Capital for calculating ratio of capital

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	March 31	1 January	December 31	March 31
	2014	2014	2013	2013
	in NIS millions			
Common equity tier 1	12,673	12,364	12,266	11,828
Additional tier 1 capital after deductions	1,145	1,136	1,016	917
Tier 1 capital	13,818	13,500	13,282	12,745
Tier 2 capital	6,100	6,124	5,663	6,101
Total capital	**19,918**	**19,624**	**18,945**	**18,846**

2. Weighted risk assets balance

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	March 31	1 January	December 31	March 31
	2014	2014	2013	2013
	in NIS millions			
Credit risk	122,879	122,592	117,138	117,694
Market Risk	3,005	2,588	2,588	2,381
CVA risk	1,292	1,144	--	--
Operational risk	12,184	12,217	12,217	12,240
Total weighted risk assets balance	**139,360**	**138,541**	**131,943**	**132,315**

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

3. Ratio of capital risk assets

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	March 31	1 January	December 31	March 31
	2014	2014	2013	2013
	In %			
A. The Bank				
Ratio of common equity tier 1 to risk assets	9.1	8.9	9.3	8.9
Ratio of tier 1 capital to risk assets	9.9	9.7	10.1	9.6
Ratio of total capital to risk assets	14.3	14.2	14.4	14.2
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.0	(4)9.0	--	--
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.5	(4)12.5	9.0	9.0
B. Significant subsidiaries				
1. Mercantile Discount Bank LTD. and its consolidated companies				
Ratio of common equity tier 1 to risk assets	10.8	10.7	10.9	10.7
Ratio of tier 1 capital to risk assets	10.7	10.6	10.5	10.2
Ratio of total capital to risk assets	14.7	14.7	14.6	14.6
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.0	(4)9.0	--	-
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.5	(4)12.5	9.0	9.0
2. Discount Bakcorp Inc. (1)				
Ratio of common equity tier 1 to risk assets	--	--	--	--
Ratio of tier 1 capital to risk assets	12.2	-	12.9	14.4
Ratio of total capital to risk assets	13.3	-	13.9	15.6
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	-	-	-	-
Minimum total capital adequacy ratio required by the Supervisor of Banks	(2)8.0	-	(2)8.0	(2)8.0
3. Israel Credit Cards LTD.				
Ratio of common equity tier 1 to risk assets	14.7	14.4	--	--
Ratio of tier 1 capital to risk assets	14.7	14.4	14.9	15.5
Ratio of total capital to risk assets	16.7	16.4	16.2	16.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.0	(4)9.0	-	-
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.5	(4)12.5	(3)9.0	(3)9.0

Footnotes to the table, see after item 5.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

4. Capital components for the purpose of calculating the capital ratio

	Unaudited	Audited	Audited	Unaudited
	(6)Basel III		(7)Basel II	
	March 31	1 January	December 31	March 31
	2014	2014	2013	2013
	in NIS millions			
A. Tier 1 capital				
Common equity	12,842	12,538	12,538	12,253
Difference between common equity and tier 1 capital	36	35	(90)	(244)
Total common equity tier 1 before supervisory adjustments and deductions	12,878	12,573	12,448	12,009
Supervisory adjustments and deductions				
Goodwill and other intangible assets	142	142	142	142
Deferred tax assets	29	32	--	--
Investment in capital of financial corporations that are not consolidated in reports to the public	34	35	34	30
Supervisory adjustments and other deductions	-	-	6	9
Total supervisory adjustments and deductions	**205**	**209**	**182**	**181**
Total tier 1 after capital supervisory adjustments and deductions	**12,673**	**12,364**	**12,266**	**11,828**
B. Additional tier 1 capital				
Additional tier 1 capital before deductions	1,425	1,425	1,781	1,747
Deductions	280	289	765	830
Total additional tier 1 after deductions	**1,145**	**1,136**	**1,016**	**917**
C. Tier 2 capital				
Instruments before deductions	4,874	4,874	(5)6,208	(5)6,707
Provision before deductions	1,510	1,542	254	254
Total tier 2 capital before deductions	6,384	6,416	6,462	6,961
Deductions				
Total deductions	284	292	799	860
Total tier 2 capital	**6,100**	**6,124**	**5,663**	**6,101**

5. The effect of the transitional instructions on the ratio of common equity tier 1

	Unaudited	Audited
	March 31	1 January
	2014	2014
	In %	
Ratio of common equity tier 1 to risk assets before implementation of the effect of the provisional instructions in directive No.299.	8.0	7.8
Effect of the provisional instructions	1.1	1.1
Ratio of common equity tier 1 to risk assets after implementation of the effect of the provisional instructions in directive No.299.	9.1	8.9

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 Bancorp Inc., was classified by the FDIC as "well capitalized". Retaining the said classification requires the maintenance of a total capital ratio, at a minimum ratio, of 10% and of a tier 1 minimum capital ratio of 6%.

(3) In view of the approach by the Supervisor of Banks, ICC is required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010.

(4) Starting with January 1, 2015.

(5) Including gains in respect of adjustment to fair value of available for sale securities and preferred shares.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED

	Unaudited						
	March 31, 2014						
	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	20,226	137	3,849	316	1,669	-	26,197
Securities	16,802	5,529	14,190	555	82	2,383	39,541
Securities borrowed or purchased under resale agreements	624	-	-	-	-	-	624
Credit to the public, net	70,597	16,477	24,280	3,241	1,276	-	115,871
Credit to the Government	86	1,718	29	-	-	-	1,833
Investments in affiliated companies	2	2	-	-	-	135	139
Buildings and equipment	-	-	-	-	-	2,642	2,642
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,622	205	352	217	120	60	3,576
Other assets	1,524	57	968	2	480	184	3,215
Noncurrent assets held for sale	-	-	3,511	120	580	5	4,216
Total assets	**112,483**	**24,125**	**47,179**	**4,451**	**4,207**	**5,551**	**197,996**
Liabilities							
Deposits from the public	83,385	10,392	41,628	8,238	4,136	-	147,779
Deposits from banks	2,075	208	1,393	78	20	-	3,774
Deposits from the Government	254	108	645	-	-	-	1,007
Securities loaned or sold under repurchase agreements	-	-	3,748	-	-	-	3,748
Subordinated capital notes	2,573	8,252	-	-	-	-	10,825
Liabilities in respect of derivative instruments	2,908	422	315	297	123	59	4,124
Other liabilities	9,082	139	507	22	57	150	9,957
Liabilities held for sale	-	-	3,219	120	601	-	3,940
Total liabilities	**100,277**	**19,521**	**51,455**	**8,755**	**4,937**	**209**	**185,154**
Difference	12,206	4,604	(4,276)	(4,304)	(730)	5,342	12,842
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(8,362)	(3,347)	7,149	4,054	506	-	-
Options in the money, net (in terms of underlying asset)	38	-	(147)	109	-	-	-
Options out of the money, net (in terms of underlying asset)	24	-	(29)	(12)	17	-	-
Total	**3,906**	**1,257**	**2,697**	**(153)**	**(207)**	**5,342**	**12,842**
Options in the money, net (discounted par value)	(39)	-	(142)	180	1	-	-
Options out of the money, net (discounted par value)	(127)	-	3	66	58	-	-

Footnote:

(1) Includes those linked to foreign currency.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

	Unaudited						
	March 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	15,426	289	5,213	380	1,020	-	22,328
Securities	23,392	6,087	17,075	382	503	701	48,140
Securities borrowed or purchased under resale agreements	632	-	-	-	-	-	632
Credit to the public, net	67,695	18,039	24,075	4,613	1,733	-	116,155
Credit to the Government	10	1,623	62	-	10	-	1,705
Investments in affiliated companies	1	2	-	-	-	1,754	1,757
Buildings and equipment	-	-	-	-	-	2,887	2,887
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,597	82	414	122	130	32	3,377
Other assets	1,533	54	967	1	265	190	3,010
Noncurrent assets held for sale	-	-	-	-	-	2	2
Total assets	**111,286**	**26,176**	**47,806**	**5,498**	**3,661**	**5,708**	**200,135**
Liabilities							
Deposits from the public	84,541	10,507	44,802	8,033	4,050	-	151,933
Deposits from banks	1,259	248	1,692	46	31	-	3,276
Deposits from the Government	246	109	707	-	-	-	1,062
Securities loaned or sold under repurchase agreements	-	-	4,818	-	-	-	4,818
Subordinated capital notes	2,934	8,994	-	-	-	-	11,928
Liabilities in respect of derivative instruments	3,155	477	457	263	165	33	4,550
Other liabilities	9,162	158	747	32	77	139	10,315
Total liabilities	**101,297**	**20,493**	**53,223**	**8,374**	**4,323**	**172**	**187,882**
Difference	9,989	5,683	(5,417)	(2,876)	(662)	5,536	12,253
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(10,027)	(1,800)	8,507	2,803	517	-	-
Options in the money, net (in terms of underlying asset)	185	-	(177)	18	(26)	-	-
Options out of the money, net (in terms of underlying asset)	105	-	(5)	(97)	(3)	-	-
Total	**252**	**3,883**	**2,908**	**(152)**	**(174)**	**5,536**	**12,253**
Options in the money, net (discounted par value)	210	-	(170)	(30)	(10)	-	-
Options out of the money, net (discounted par value)	821	-	(288)	(466)	(67)	-	-

Footnote:
(1) Includes those linked to foreign currency.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

	Audited						
	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
Noncurrent 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)	-	-

Footnotes:

(1) Includes those linked to foreign currency.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

A. Off balance Sheet Financial Instruments[3]

	Unaudited		Unaudited		Audited	
	Balance[1]	Provision[2]	Balance [1]	Provision [2]	Balance [1]	Provision [2]
	March 31,2014[4]		March 31,2013		December 31,2013[4]	
	in NIS millions					
Transactions in which the balance represents credit risk:						
Letters of credit	1,292	9	1,410	1	1,146	12
Credit guarantees	2,582	31	2,667	45	2,675	33
Guarantees for home purchasers	4,798	7	5,185	15	5,181	9
Other guarantees and obligations	4,359	40	4,399	37	4,295	42
Unutilized facilities for transactions in derivative instruments	1,458	-	1,222	-	1,356	-
Unutilized credit line for credit cards	16,939	24	15,873	23	16,831	24
Unutilized current loan account facilities and other credit facilities in on-call accounts	7,699	19	7,904	20	7,647	19
Irrevocable commitments to extend credit approved but not yet granted[3]	15,127	41	16,994	37	15,353	40
Commitment to issue guarantees	3,507	6	3,008	6	2,782	5

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaning interest rates" in accordance with Proper Management Directive No, 451 "Procedures for the granting of housing loans".

(4) Not including balances classified as assets held for sale, see Note 18.

B. Contingent liabilities and other special commitments

	Unaudited		Audited
	March 31		December 31
	2014	2013	2013
	in NIS millions		
1. Long-term lease contracts - rent payable in future years:			
First year	137	[1]105	115
Second year	126	[1]100	106
Third year	96	[1]85	87
Fourth year	74	[1]64	70
Fifth year	63	[1]56	62
Sixth year and thereafter	290	[1]272	312
Total	**786**	**682**	**752**
2. Commitment to acquire buildings and equipment	32	46	41
3. Commitment to invest in private investment funds and in venture capital funds	302	339	308

Footnote:

(1) Reclassified - following reclassification in a consolidated company.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

4. Various actions against the Bank and its consolidated subsidiaries:

As detailed in Note 19 C 12 to the financial statements as at December 31, 2013, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 1,538 million as of March 31, 2014.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 19 C sections 12 through 15 to the financial statements as at December 31, 2013. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 17 to the financial statements as at December 31, 2012.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

4.1 Note 19 C 12.4 to the financial statements as of December 31, 2013, described a lawsuit filed on September 12, 2006, against the Bank, Bank Leumi and Bank Hapoalim, as well as a motion for approval of the lawsuit as a class action suit. The Plaintiff assessed the amount claimed at NIS 7 billion in respect of all the defendant banks, 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.

On May 5, 2014, the Court gave its decision, according to which, in view of combining the hearing of this case with the proceedings described in item 4.2 below, the parties are requested to reach a procedural agreement regarding the relation between the two motions and the way in which they would be heard. In the event that the parties do not reach a procedural agreement within fourteen days, each of them will have to state this position in the matter within seven additional days. The case is fixed for a memorandum hearing on June 10, 2014.

4.2 Note 19 C 12.5 to the financial statements as of December 31, 2013, described lawsuit filed on November 23, 2006, 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.

The Bank responded to the motion to approve the claim as a class action suit.

On May 15, 2008, the Court decided to stay the proceedings until a ruling is given in the appeal filed by the banks with respect to the action described in item 4.1 above.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

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 item 4.1 above.

On May 5, 2014, the Court gave its decision, according to which, in view of combining the hearing of this case with the proceedings described in item 4.1 above, the parties are requested to reach a procedural agreement regarding the relation between the two motions and the way in which they would be heard. In the event that the parties do not reach a procedural agreement within fourteen days, each of them will have to state this position in the matter within seven additional days. The case is fixed for a memorandum hearing on June 10, 2014.

4.3 Note 19 C 12.6 to the financial statements as of December 31, 2013, described a motion filed on June 30, 2008, for the approval of an action as a class action suit against the Bank, Bank Hapoalim and Bank Leumi, was submitted to the Tel Aviv District Court. The core issues of the suit rests on the Plaintiffs' claim that, since the end of the 1990's and possibly even earlier, the three defendant banks created a cartel coordinating the prices of commissions charged to their customers.

The Plaintiffs claim an overall damage for all member of the group of NIS 3.5 billion. The Bank's share in the claimed amount is approx. NIS 770 million.

According to the decision of the District Court of October 7, 2009, the claim will be heard together with the claim described in Section 5.2 hereunder.

On October 7, 2009, the District Court rejected the motions submitted for the in limine dismissal of the claim and instructed that the hearing of this claim should be incorporated with the claim discussed above in item 13.2 in the financial statements as of December 31, 2013. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the Commissioner's ruling, submitted by the banks to the Antitrust Tribunal (see item 6 hereunder). The parties informed the Court on February 16, 2014, that negotiations are being held between the banks and the Commissioner. The case is fixed for May 18, 2014, for a preliminary hearing and for the hearing of the motion for renewal of proceedings. With the consent of the parties and in view of the contacts between the banks and the Commissioner, the preliminary hearing has been postponed for June 26, 2014.

4.4 Note 19 C 12.9 to the financial statements as of December 31, 2013, described a motion filed on July 13, 2011, 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.

In accordance with the order of the Court, a notice is to be published regarding the mediation arrangement, as well as deliver copies to the Attorney General to the Government, the Commissioner of Consumer Protection, the Supervisor of Banks and to the Director of Courts. The Attorney General to the Government has been granted an extension until May 30, 2014 for the submission of his position. The case is fixed for reminder on June 15, 2014.

4.5 Note 19 C 12.13 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for approval of the suit as a class action suit, submitted on October 11, 2012, to the Tel Aviv District Court, against the Bank, FIBI, Leumi Bank and Mizrahi Bank.

The matter of the lawsuit is the value date attributed by the banks to payments made by debtors directly to their account at the Debt Execution Office. According to the Claimants, the banks attribute a different value date to such payments, which is later than 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

The Claimants argue that at this stage it is not possible to assess the amount of the claim, since in order to do so, specific examinations would have to be made at the banks.

On March 10, 2014 the Bank`s response was filed. The case was fixed for a preliminary hearing on September 14, 2014.

4.6 Note 19 C 12.15 to the financial statements as of December 31, 2013, described two claims submitted by the Liquidator of a construction group in February and March 2013, which were filed with the Jerusalem District Court against the Bank and other parties. One claim, on behalf of one company in the group, is for an amount of NIS 75 million. The other claim, on behalf of another company in the group, is for an amount of NIS 45 million.

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 4, 2014. The response of the special manager was submitted in April 2014 as well as a motion for combining the hearing of both claims. A preliminary hearing was fixed for October 20, 2014.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

5.1 Note 19 C 13.1 to the financial statements as of December 31, 2013, described a petition for approval of an action as a class action suit filed with the Tel Aviv District Court On June 19, 2000 by two borrowers of DMB against DMB and against the Israel Phoenix Insurance Co. Ltd., where the properties of the borrowers are insured. The action is for the amount of NIS 105 million (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, and that the sum insured was increased in excess of the increase in the Consumer Price Index.

On December 25, 2000, the Court decided that whereas the arguments in this case are similar to those argued in another class action suit, as described in item 12.1 to Note 19 C to the financial statements as of December 31, 2013, the hearing of the said case will be postponed until a decision is given in the other case. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

5.2 Note 19 C 13.2 to the financial statements as of December 31, 2013 described an action filed against the Bank, Bank Leumi, Bank Hapoalim, Mizrahi-Tefahot Bank and the First International Bank ("FIBI") together with a motion to approve the action as a class action suit received by the Bank on May 12, 2009.

The action is based on the statement of the Antitrust Commissioner (see item 6 below) according to which binding arrangements regarding the communication of information with respect to commissions had existed between the defendant banks.

The total damage for all the defendant banks is assessed for the purpose of the action at approximately NIS 1 billion, with no allocation between them.

On October 7, 2009, the District Court rejected the motions submitted for the in limine dismissal of the claim and instructed that the hearing of this claim should be incorporated with the claim discussed in item 4.3 above. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the Commissioner's ruling, submitted by the banks to the Antitrust Tribunal (see item 6 hereunder).

The parties informed the Court on February 16, 2014, that negotiations are being held between the banks and the Commissioner. The case has been fixed for May 18, 2014 for a preliminary hearing and for the hearing of the motion for renewal of proceedings. With the consent of the parties the preliminary hearing has been postponed for June 26, 2014.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

5.3 Note 19 C 13.3 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for approval of the suit as a class action suit that were filed on April 17, 2013, with the Tel-Aviv District Court, against ICC and Castro Models Company Ltd. (hereinafter: "the Respondents").

The claim relates to the marketing of "Wish you card" gift cards. The Claimant alleges that the marketing of the gift cards was made while the Respondents displayed misleading statements and determined prohibited terms in contravention of the provisions of the Consumer Protection Act, 1981, and the regulations under it. The Claimant alleges that the actions of the Respondents had misled him and prevented him from performing operations to which he was legally entitled.

The Claimant stated the amount of the claim for all group members at NIS 213.5 million, on the assumption that the group numbers about 500 thousand customers.

5.4 Note 19 C 13.4 to the financial statements as of December 31, 2013, described a lawsuit that 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`s response was submitted on May 5, 2014. The case is scheduled for a preliminary hearing on June 9, 2014.

5.5 Note 19 C 13.5 to the financial statements as of December 31, 2013, described a lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit that 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.

5.6 Note 19 C 13.6 to the financial statements as of December 31, 2013, described 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, that 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 January 26, 2014, the Court admitted the preliminary motions submitted in this case, including the motion by the Appellants for withdrawal of the counter 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. According to an agreement reached at the hearing, the banks will submit their response by August 15, 2014.

On May 4, 2014, the Court decided that this motion will be heard together with the motion described in item 5.11 below.

5.7 Note 19 C 13.7 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for approval of the suit as a class action suit received at ICC on October 13, 2013, and that were filed with the Lod District Court against all credit card companies (including ICC) and against several fuel companies.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

As argued by the Claimants, under an arrangement between the fuel companies and the credit card companies, a charge of between NIS 150 and NIS 600 was made in respect of each refueling, irrespective of the actual cost of the fuel purchased (hereinafter – "the additional charge"). As alleged, the additional charge was not brought to the notice of the consumers, and even though it was cancelled after several days, it caused the customers to be in a position of short credit and/or short cash in their accounts during the period from the date on which their credit cards were charged with the additional charge and the date on which the additional charge was cancelled.

The Claimants did not state the amount of the claim in relation to the whole group.

5.8 Note 19 C 13.8 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for its approval as a class action suit which were filed 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, and estimated the Bank's share at NIS 498 million and share of MDB at NIS 195 million.

The Bank`s response was submitted on May 7, 2014. A preliminary hearing of the case was fixed for September 2, 2014.

5.9 Note 19 C 13.9 to the financial statements as of December 31, 2013, described a lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit which were 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.

MDB has to file its response by July 15, 2014.

5.10 Note 19 C 13.10 to the financial statements as of December 31, 2013, described a lawsuit, together with a motion for approval of the lawsuit as a class action suit which were filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC.

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.

The Bank and ICC have to submit their response by July 8, 2014.

On May 12, 2014, the Bank filed a motion for an in limine dismissal.

5.11 Note 19 C 13.11 to the financial statements as of December 31, 2013, described a lawsuit against DMB and other banks, as well as a motion for the approval of the lawsuit as a class action suit, which 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

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.

In accordance with the ruling of the Tel Aviv District Court, this motion will be heard together with the motion described in item 5.6 above.

5.12 Note 19 C 13.12 to the financial statements as of December 31, 2013, described a lawsuit filed on March 4, 2014, 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 to submit its response by June 25, 2014. A preliminary hearing is fixed for July 7, 2014.

5.13 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and others.

The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies. The Plaintiffs claim that the first binding arrangement is an arrangement for the charging of a cross commission in respect of transactions made through the use of debit or pre paid cards. As regards the second binding arrangement, the Plaintiffs claim that it involves the unlawful withholding of monies due to trading houses for a period of twenty days following the date of collection of the money by the credit card companies.

The class of those directly affected, whom the Plaintiffs wish to represent, is defined as "all trading houses in Israel which accept debit cards".

The class of those indirectly affected, whom the Plaintiffs wish to represent, is defined as "anyone who purchased goods or services at trading houses that accept debit cards, including the Plaintiffs".

The Plaintiffs assess the amount of the claim against all defendants and in respect of all class members at NIS 1,736 million.

The case is fixed for a preliminary hearing on September 9, 2014.

6. Note 19 C 15 to the financial statements as of December 31, 2013, described the decision of the Antitrust Commissioner regarding binding arrangements between banks, following an investigation conducted since 2004 by the Antitrust Authority.

On April 26, 2009, the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, was published according to which the Commissioner states that binding arrangements had existed between the banks regarding the communication of information with respect to commissions (the Commissioner's decision).

In the wake of the publication of the Statement, the Bank and the other banks submitted appeals against the statement of the Commissioner. Within the framework of the appeal proceedings, the Bank filed a motion for the dismissal of arguments and attachments to the response of the Commissioner as well as a motion ordering the Commissioner to disclose investigation material not yet submitted.

In its decision of June 18, 2012, the Antitrust Tribunal agreed with the motion filed by the banks and ordered the deletion of certain sections of the response brief submitted by the Antitrust Commissioner with respect to the appeal, which related to commissions and to a matter that were not included in the statement of the Commissioner.

Following the said decision, the Commissioner informed the Bank on July 29, 2012, that he considers to act on his authority and publish a supplemental decision regarding the transfer of information, which was included in the parts that had been deleted from his response brief, according to which such transfers of information constituted binding arrangements. 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

On March 27, 2014, the banks and the Commissioner signed an agreed order ("the agreed order"), whereby it is determined that the banks would pay an amount of NIS 70 million, of which an amount of NIS 14 million to be paid by Discount Bank ("the payment"), and this without the banks admitting their liability under the provisions of the law or admitting a violation on their part of the provisions of the law.

Subject to the approval of the agreed order by the Antitrust Tribunal and to the deposit of the payment by the banks, the decision would be cancelled and no enforcement measures would be taken against the banks in connection with the investigation that had led to the publication of the decision.

It has been determined, within the framework of the agreed order, that the payment may be used for compromise arrangements that might be reached by the banks as regards class actions that are pending against them, and which are detailed in the agreed order. The balance of the payment, which would remain at the end of twenty-four months from date of approval of the agreed order, shall be assigned to the State's Treasury.

On May 1, 2014, the Antitrust Commissioner submitted to the Court an agreed motion for granting the power of a Court Order to the agreement between the Commissioner and the banks, under Section 50B of the Antitrust Act.

On May 7, 2014, the Commissioner informed the Court that notice had been received from one of the Claimants in the process described in item 4.2 above, according to which he intends to oppose the approval of the agreed Order. Accordingly, the Commissioner motioned the Court to delay its decision until May 19, 2014, date on which the detailed opposing position would be submitted together with the assertions of the Commissioner.

The Court admitted the motion and fixed the case for internal review on May 19, 2014.

On May 19, 2014, the Commissioner submitted his position to the Antitrust Tribunal. The Commissioner is of the opinion that the opposing party has no standing and have not presented reasons for denying the approval of the agreed Order. The Commissioner requested the Tribunal to admit the request for approval of the agreed Order.

7. **An agreement for provision of services to the teaching staff.** Note 19C(18) to the financial statements as of December 31, 2013 includes a description of the main items of the agreement for the provision of services to educational staff and the extensions signed in respect thereof. 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. It has recently been announced that another bank had been successful in the tender. (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).

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	Unaudited					
	March 31, 2014					
	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	-	2,013	-	-	-	2,013
Total	**-**	**2,013**	**-**	**-**	**-**	**2,013**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,013				
B. ALM derivatives[1][2]						
Futures contracts	-	1,969	-	-	-	1,969
Forward contracts	5,684	11,634	13,541	-	-	30,859
Marketable option contracts						
Options written	-	-	1,179	-	-	1,179
Options purchased	-	-	1,240	-	-	1,240
Other option contracts						
Options written	-	1,600	9,065	262	-	10,927
Options purchased	-	118	8,684	[3]-	-	8,802
Swaps	-	82,159	50,883	-	-	133,042
Total	**5,684**	**97,480**	**84,592**	**262**	**-**	**188,018**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	40,796				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	22	22
Forward contracts	-	-	2,488	-	4	2,492
Marketable option contracts						
Options written	-	-	8	4,871	1	4,880
Options purchased	-	-	8	4,871	1	4,880
Other option contracts						
Options written	-	105	330	326	138	899
Options purchased	-	113	328	330	139	910
Swaps	-	4,829	324	-	-	5,153
Total	**-**	**5,047**	**3,486**	**10,398**	**305**	**19,236**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,414				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			1,756			

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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	Unaudited					
	March 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	-	1,892	-	-	-	1,892
Total	**-**	**1,892**	**-**	**-**	**-**	**1,892**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,892				
B. ALM derivatives[1][2]						
Futures contracts	-	2,740	-	-	-	2,740
Forward contracts	4,981	6,000	16,392	-	-	27,373
Marketable option contracts						
Options written	-	-	269	-	-	269
Options purchased	-	-	267	-	-	267
Other option contracts						
Options written	-	800	8,960	401	-	10,161
Options purchased	-	1,450	7,697	[3]-	3	9,150
Swaps	-	64,575	40,203	-	-	104,778
Total	**4,981**	**75,565**	**73,788**	**401**	**3**	**154,738**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	33,122				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	22	22
Forward contracts	-	-	1,262	-	62	1,324
Marketable option contracts						
Options written	-	-	21	3,111	-	3,132
Options purchased	-	-	21	3,111	-	3,132
Other option contracts						
Options written	-	114	456	315	151	1,036
Options purchased	-	117	552	318	151	1,138
Swaps	-	4,136	199	-	-	4,335
Total	**-**	**4,367**	**2,511**	**6,855**	**386**	**14,119**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,253				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			3,574			

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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	Audited					
	December 31, 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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Unaudited					
	March 31, 2014					
	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	-	41	-	-	-	41
Negative gross fair value	-	32	-	-	-	32
B. ALM derivatives[1]						
Positive gross fair value	37	2,562	866	-	-	3,465
Negative gross fair value	69	2,811	1,104	1	-	3,985
C. Other derivatives						
Positive gross fair value	-	35	12	71	-	118
Negative gross fair value	-	35	16	70	-	121
D. Total						
Positive gross fair value[2]	37	2,638	878	71	-	3,624
Balance sheet balance of assets stemming from derivative instruments[2]	**37**	**2,638**	**878**	**71**	**-**	**3,624**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	1	11	60	-	72
Negative gross fair value [3]	69	2,878	1,120	71	-	4,138
Balance sheet balance of liabilities stemming from derivative instruments[3]	**69**	**2,878**	**1,120**	**71**	**-**	**4,138**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	1	108	55	-	164

For footnotes see page 186.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments (continued)

	Unaudited					
	March 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	-	4	-	-	-	4
Negative gross fair value	-	47	-	-	-	47
B. ALM derivatives[1]						
Positive gross fair value	14	2,258	1,042	[4]-	[4]-	3,314
Negative gross fair value	76	2,625	1,719	2	-	4,422
C. Other derivatives						
Positive gross fair value	-	44	15	42	4	105
Negative gross fair value	-	44	10	40	4	98
D. Total						
Positive gross fair value[2]	14	2,306	1,057	42	4	3,423
Balance sheet balance of assets stemming from derivative instruments[2]	**14**	**2,306**	**1,057**	**42**	**4**	**3,423**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	1	6	32	1	40
Negative gross fair value [3]	76	2,716	1,729	42	4	4,567
Balance sheet balance of liabilities stemming from derivative instruments[3]	**76**	**2,716**	**1,729**	**42**	**4**	**4,567**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	2	[4]-	156	28	[4]-	186

For footnotes see next page.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments (continued)

	Audited					
	December 31, 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						
Positive gross fair value[2]	10	2,430	1,275	414	2	4,131
Balance sheet balance of assets stemming from derivative instruments[2]	**10**	**2,430**	**1,275**	**414**	**2**	**4,131**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	[4]-	8	402	1	411
Negative gross fair value [3]	62	2,698	1,738	413	2	4,913
Balance sheet balance of liabilities stemming from derivative instruments[3]	**62**	**2,698**	**1,738**	**413**	**2**	**4,913**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	1	103	397	-	501

Footnotes:

(1) Derivatives comprising a part of the asset and liability management system which were not designated for hedging relations.

(2) Of which: NIS 48 million (March 31, 2013: NIS 46 million; December 31, 2013: NIS 51 million) of positive gross fair value of embedded derivative instruments.

(3) Of which: NIS 14 million (March 31, 2013: NIS 17 million; December 31, 2013: NIS 15 million) of negative gross fair value of embedded derivative instruments.

(4) An amount lower than NIS 1 million

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	Unaudited					
	In NIS millions					
	March 31, 2014					
Balance sheet balance of assets regarding derivative instruments[2]	24	2,830	17	46	707	3,624
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(2,650)	(1)	-	(141)	(2,792)
Credit risk mitigation in respect of cash collateral received	-	(42)	-	(13)	-	(55)
Net amount of assets in respect of derivative instruments	**24**	**138**	**16**	**33**	**566**	**777**
Off-balance sheet credit risk in respect of derivative instruments[1][5]	-	83	26	25	422	556
Total credit risk in respect of derivative instruments	**24**	**221**	**42**	**58**	**988**	**1,333**
Balance sheet balance of liabilities in respect of derivative instruments[3]	18	3,658	14	-	448	4,138
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(2,650)	(1)	-	(141)	(2,792)
Pledged cash collateral	-	(772)	(2)	-	-	(774)
Net amount of liabilities in respect of derivative instruments	**18**	**236**	**11**	**-**	**307**	**572**

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	Unaudited					
	March 31, 2013					
Balance sheet balance of assets regarding derivative instruments[2]	11	2,856	7	-	549	3,423
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(2,711)	(3)	-	(176)	(2,890)
Credit risk mitigation in respect of cash collateral received	-	(17)	(1)	-	-	(18)
Net amount of assets in respect of derivative instruments	**11**	**128**	**3**	**-**	**373**	**515**
Off-balance sheet credit risk in respect of derivative instruments[1]	-	246	92	81	959	1,378
Total credit risk in respect of derivative instruments	**11**	**374**	**95**	**81**	**1,332**	**1,893**
Balance sheet balance of liabilities in respect of derivative instruments[3]	17	3,734	9	4	803	4,567
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(2,711)	(3)	-	(176)	(2,890)
Pledged cash collateral	-	[4](519)	-	(1)	-	(520)
Net amount of liabilities in respect of derivative instruments	**17**	**504**	**6**	**3**	**627**	**1,157**

For footnotes see next page.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis (continued)

	Audited					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2013					
Balance sheet balance 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(1)	-	333	28	97	919	1,377
Total credit risk in respect of derivative instruments	**188**	**506**	**34**	**125**	**1,511**	**2,364**
Balance sheet balance 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**

Footnotes:

(1) 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.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,576 million (March 31, 2013: NIS 3,377 million; December 31, 2013: NIS 4,080 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,124 million (March 31, 2013: NIS 4,550 million; December 31, 2013: NIS 4,898 million).

(4) Correction of a pledged cash collateral computation.

(5) As from January 1, 2014, an amendment to the instructions is being implemented, according to which the "add-on" factor is reduced in order to modify it to Proper Conduct of Banking Business Directive No. 203, and is no longer multiplied by three, as was the practice until then.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

C. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	March 31, 2014				
Interest rate contracts					
Shekel/CPI	885	2,019	2,480	300	5,684
Other	16,538	15,960	50,114	21,928	104,540
Foreign currency contracts	53,732	26,853	5,715	3,534	89,934
Contracts on shares	9,628	724	308	-	10,660
Commodities and other contracts	79	170	56	-	305
Total	**80,862**	**45,726**	**58,673**	**25,762**	**211,023**
	Unaudited				
	March 31, 2013				
Total	**64,086**	**45,399**	**39,851**	**24,987**	**174,323**
	Audited				
	December 31, 2013				
Total	**95,760**	**51,201**	**50,240**	**26,266**	**223,467**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. Composition - consolidated

	Unaudited				
	March 31, 2014				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	26,197	7,042	-	19,177	26,219
Securities[2]	39,541	24,337	14,819	755	39,911
Securities borrowed or purchased under resale agreements	624	-	-	624	624
Credit to the public, net	115,871	2,197	6	114,548	116,751
Credit to Governments	1,833	-	-	1,880	1,880
Assets in respect of derivative instruments	3,576	69	2,850	657	3,576
Other financial assets	1,564	11	48	1,505	1,564
Financial assets held for sale[4]	4,141	1,249	1,917	975	4,141
Total financial assets	**[3]193,347**	**34,905**	**19,640**	**140,121**	**194,666**
Financial liabilities					
Deposits from the public	147,779	15,343	100,804	32,219	148,366
Deposits from banks	3,774	19	3,360	416	3,795
Deposits from the Government	1,007	-	811	213	1,024
Securities loaned or sold under repurchase agreements	3,748	-	-	4,112	4,112
Subordinated capital notes	10,825	10,336	52	2,334	12,722
Liabilities in respect of derivative instruments	4,124	68	3,602	454	4,124
Other financial liabilities	7,863	441	14	7,408	7,863
Financial liabilities held for sale[4]	3,906	1,116	-	2,790	3,906
Total financial liabilities	**[3]183,026**	**27,323**	**108,643**	**49,946**	**185,912**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	60	-	-	60	60

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 2.

(3) Of which: assets and liabilities in the amount of NIS 51,533 million and NIS 62,160 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 9 B - 9 C.

(4) See Note 18.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. Composition - consolidated (continued)

	Unaudited				
	March 31, 2013				
	Book value	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	22,328	7,338	-	15,008	22,346
Securities[(2)]	48,140	[(4)]29,855	[(4)]18,066	619	48,540
Securities borrowed or purchased under resale agreements	632	-	-	632	632
Credit to the public, net	116,155	1,855	5	114,871	116,731
Credit to Governments	1,705	-	-	1,704	1,704
Assets in respect of derivative instruments	3,377	35	2,885	457	3,377
Other financial assets	1,350	3	46	1,301	1,350
Influence of deduction agreements	-	-	-	-	-
Total financial assets	**[(3)]193,687**	**39,086**	**21,002**	**134,592**	**194,680**
Financial liabilities					
Deposits from the public	151,933	16,892	[(5)]97,800	[(5)]37,805	152,497
Deposits from banks	3,276	24	2,797	507	3,328
Deposits from the Government	1,062	2	851	220	1,073
Securities loaned or sold under repurchase agreements	4,818	-	-	5,381	5,381
Subordinated capital notes	11,928	10,784	60	2,809	13,653
Liabilities in respect of derivative instruments	4,550	35	4,005	510	4,550
Other financial liabilities	8,077	589	17	7,471	8,077
Influence of deduction agreements	-	-	-	-	-
Total financial liabilities	**[(3)]185,644**	**28,326**	**105,530**	**54,703**	**188,559**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	76	-	-	76	76

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 2.

(3) Of which: assets and liabilities in the amount of NIS 55,397 million and NIS 55,245 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 9 B - 9 C.

(4) Reclassified, following modification to the Note on securities.

(5) Reclassification of certain deposits from level 2 to level 3.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. Composition - consolidated (continued)

	Audited				
	December 31, 2013				
	Book value	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	[5]1,275	1,935	[5]908	4,118
Total financial assets	**[3]194,231**	**36,585**	**18,945**	**139,679**	**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 in which the balance represents 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 2.

(3) Of which: assets and liabilities in the amount of NIS 51,571 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 9 B - 9 C.

(4) See Note 18.

(5) Reclassified following the classification of certain assets by a subsidiary.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited					
	March 31, 2014					
	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	16,314	937	-	-	17,251	17,251
Of foreign governments	173	236	-	-	409	409
Of Israeli financial institutions	574	58	-	-	632	632
Of foreign financial institutions	-	2,733	-	-	2,733	2,733
Mortgage-backed-securities and Assets -backed-securities	-	7,082	-	-	7,082	7,082
Of others in Israel	622	144	-	-	766	766
Of others abroad	-	59	-	-	59	59
Shares	1,616	-	-	-	1,616	1,616
Total available-for-sale securities	**19,299**	**11,249**	**-**	**-**	**30,548**	**30,548**
Trading Securities						
Of the Israeli Government	875	184	-	-	1,059	1,059
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	2	-	-	-	2	2
Of foreign financial institutions	-	9	-	-	9	9
Mortgage-backed-securities and Assets -backed-securities	-	48	-	-	48	48
Of others in Israel	69	-	-	-	69	69
Of others abroad	-	4	-	-	4	4
Shares	11	1	-	-	12	12
Total trading securities	**957**	**246**	**-**	**-**	**1,203**	**1,203**
Credit to the public in respect of securities loaned	2,197	6	-	-	2,203	2,203
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	37	-	37	37
Other Interest Rate Contracts	-	2,539	99	-	2,638	2,638
Foreign Exchange Contracts	10	299	521	-	830	830
Shares Contracts	59	12	-	-	71	71
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	69	2,850	657	-	3,576	3,576
Other	-	48	-	-	48	48
Assets in respect of the "Maof" market operations	11	-	-	-	11	11
Total assets	**22,533**	**14,399**	**657**	**-**	**37,589**	**37,589**
Liabilities						
Deposits from the public in respect of securities borrowed	1,356	8	-	-	1,364	1,364
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	69	-	69	69
Other Interest Rate Contracts	-	2,876	-	-	2,876	2,876
Foreign Exchange Contracts	9	725	385	-	1,119	1,119
Shares Contracts	59	1	-	-	60	60
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	68	3,602	454	-	4,124	4,124
Other	-	14	-	-	14	14
Commitments in respect of the "Maof" market operations	11	-	-	-	11	11
Short sales of securities	430	-	-	-	430	430
Total liabilities	**1,865**	**3,624**	**454**	**-**	**5,943**	**5,943**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Unaudited					
	March 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	20,571	796	-	-	21,367	21,367
Of foreign governments	224	687	-	-	911	911
Of Israeli financial institutions	651	60	-	-	711	711
Of foreign financial institutions	33	2,776	-	-	2,809	2,809
Mortgage-backed-securities and Assets -backed-securities	-	9,518	-	-	9,518	9,518
Of others in Israel	517	205	-	-	722	722
Of others abroad	-	72	-	-	72	72
Shares	80	-	-	-	80	80
Total available-for-sale securities	**22,076**	**14,114**	**-**	**-**	**36,190**	**36,190**
Trading Securities						
Of the Israeli Government	4,184	-	-	-	4,184	4,184
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	18	-	-	-	18	18
Of foreign financial institutions	-	25	-	-	25	25
Mortgage-backed-securities and Assets -backed-securities	-	45	-	-	45	45
Of others in Israel	49	-	-	-	49	49
Of others abroad	-	2	-	-	2	2
Shares	1	1	-	-	2	2
Total trading securities	**4,252**	**77**	**-**	**-**	**4,329**	**4,329**
Credit to the public in respect of securities loaned	1,855	5	-	-	1,860	1,860
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	14	-	14	14
Other Interest Rate Contracts	-	2,229	77	-	2,306	2,306
Foreign Exchange Contracts	3	642	366	-	1,011	1,011
Shares Contracts	32	10	-	-	42	42
Commodity and other Contracts	-	4	-	-	4	4
Total assets in respect of derivative instruments	35	2,885	457	-	3,377	3,377
Other	-	46	-	-	46	46
Assets in respect of the "Maof" market operations	3	-	-	-	3	3
Total assets	**28,221**	**17,127**	**457**	**-**	**45,805**	**45,805**
Liabilities						
Deposits from the public in respect of securities borrowed	780	10	-	-	790	790
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	76	-	76	76
Other Interest Rate Contracts	-	2,712	-	-	2,712	2,712
Foreign Exchange Contracts	3	1,290	434	-	1,727	1,727
Shares Contracts	32	2	-	-	34	34
Commodity and other Contracts	-	1	-	-	1	1
Total liabilities in respect of derivative instruments	35	4,005	510	-	4,550	4,550
Other	-	17	-	-	17	17
Commitments in respect of the "Maof" market operations	3	-	-	-	3	3
Short sales of securities	586	-	-	-	586	586
Total liabilities	**1,404**	**4,032**	**510**	**-**	**5,946**	**5,946**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited					
	December 31, 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**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	Unaudited				
	March 31, 2014				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended March 31,2014
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	2,052	2,052	(67)
Other	-	4	11	15	-

	Unaudited					
	March 31, 2013					
	Level 1	Level 2	Level 3	Total fair value		Profit (Loss) for the three months ended March 31,2013
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	(1)2,795	2,795	-	(1)(109)
Other	-	(2)4	(2)8	12	-	-

Notes:

(1) Reclassified - change in the contents of collateral-contingent credit presented in the framework of the item.

(2) Reclassified in respect of subsidiary.

	Audited				
	December 31, 2013				
	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)1,761	1,761	(284)
Other	-	3	13	16	(3)

Note:

(1) Reclassified - change in the contents of collateral-contingent credit presented in the framework of the item.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated

1. For a period of three months ended March 31, 2014:

	Unaudited								
	Fair value as at December 31, 2013	Total realized and non realized gains (losses) included in the statement of income	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at March 31, 2014	Non realized gains (losses) in respect of held instruments as at March 31, 2014
	in NIS millions								
Net Liabilities in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	52	(1)15	-	-	5	-	-	32	(1)16
Other Interest Rate Contracts	(111)	(1)35	-	-	(19)	(28)	(3)-	(99)	(1)35
Foreign Exchange Contracts	(279)	(1)(56)	(3)-	(56)	(28)	(3)-	(3)	(136)	(1)69
Total	**(338)**	**(6)**	**-**	**(56)**	**(42)**	**(28)**	**(3)**	**(203)**	**120**

2. For a period of three months ended March 31, 2013:

	Unaudited								
	Fair value as at December 31, 2012	Total realized and non realized gains (losses) included in the statement of income	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at March 31, 2013	Non realized gains (losses) in respect of held instruments as at March 31, 2013
	in NIS millions								
Net Liabilities in respect of derivative instruments(2)									
Shekel/CPI Interest Rate Contracts	64	(1)(8)	-	-	10	-	-	62	(1)(8)
Foreign Exchange Contracts	433	(1)(2)	-	-	77	-	-	358	(1)(8)
Total	**497**	**(1)**	-	-	**87**	-	-	**420**	**(16)**

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.
(3) An amount lower than NIS 1 million.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated (continued)

3. For the year ended December 31, 2013:

	Audited								
	Fair value as at December 31, 2012	Total realized and unrealized gains (losses) included in the statement of income	Issuances	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**

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income".

D. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in the first quarter of 2014, 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.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Unaudited			
	Fair value as at March 31, 2014	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	2052	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	11	Assessments and evaluation, valuation by an expert assessor	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	99	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 7.46% (0.44%)
Foreign Exchange Contracts	136	Discounted cash flow	One year period inflation expectations	From 1.68% to 6.80% (4.15%)
			Counterparty credit risk (CVA)	From 0.00% to 12.20% (3.43%)
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	32	Discounted cash flow	One year period inflation expectations	From 1.72% to 6.67% (3.97%)
			Counterparty credit risk (CVA)	From 0.00% to 6.18% (0.89%)

	Unaudited			
	Fair value as at March 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	(1)2,795	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	(2)8	Assessments and evaluation, valuation by an expert assessor	Real estate market inputs, company value	
B. Items measured at fair value on a recurring basis				
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	62	Discounted cash flow	One year period inflation expectations	From 2.12% to 5.34% (3.33%)
Foreign Exchange Contracts	358	Discounted cash flow	One year period inflation expectations	From 2.11% to 5.55% (4.06%)

For footnotes see next page.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

1. Quantitative information regarding the measurement of fair value at level 3 (continued)

	Audited			
	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	(1)1,761	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	13	Assessments and evaluation, valuation by an expert assessor	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	Counterparty credit risk (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%)
			Counterparty credit risk (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%)
			Counterparty credit risk (CVA)	From 0.00% to 9.27% (0.79%)

Footnotes:
(1) Reclassified - change in the contents of collateral - contingent credit presented in the framework of the item.
(2) Reclassified in respect of subsidiary.

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.

10. INTEREST INCOME AND EXPENSES - CONSOLIDATED

	Unaudited	
	For the three months ended March 31,	
	2014	2013
	in NIS millions	
A. Interest Income(2)		
Credit to the public(4)	1,087	1,296
Credit to the Governments	(9)	1
Deposits with the Bank of Israel and cash	36	63
Deposits with Banks	9	12
Securities borrowed or purchased under resale agreements	1	1
Bonds(1)	191	281
Other assets	9	14
Total interest income	**1,324**	**1,668**
B. Interest Expenses(2)		
Deposits from the public	(166)	(394)
Deposits from the Government	(2)	(2)
Deposits from banks	(11)	(16)
Securities loaned or sold under repurchase agreements	(35)	(48)
Subordinated capital notes	(89)	(161)
Other liabilities	(3)	(3)
Total interest expenses	**(306)**	**(624)**
Interest Income, Net	**1,018**	**1,044**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:		
Interest income (expenses)(3)	(21)	10
D. Accrual basis, interest income from bonds:		
Held-to-maturity	49	59
Available for-sale	137	196
Trading	5	26
Total included in interest income	191	281

Footnotes:

(1) Financing income generated by mortgage backed securities (MBS) - in US $ millions	14	9
Financing income generated by mortgage backed securities (MBS) - in NIS millions	49	33

(2) Including the effective component of hedging relationships.
(3) Details of the effect of hedge derivative instruments on subsection A.
(4) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commission income), see Note 1E(1).

11. NON-INTEREST FINANCING INCOME - CONSOLIDATED

	Unaudited For the three months ended March 31,	
	2014	2013
	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]	32	(368)
Total from operations in derivative instruments	**32**	**(368)**
2. From investments in bonds:		
Gains on sale of available-for-sale bonds[7]	79	117
Losses on sale of available-for-sale bonds[7]	-	(1)
Provision for decline in value of available-for-sale bonds[7]	(3)	-
Total from investments in bonds	**76**	**116**
3. Net exchange rate differences	**(38)**	**366**
4. Net profit (losses) from investments in shares:		
Gains on sale of shares available-for-sale[7]	11	51
Reversal of provision (provision) for decline in value of available-for-sale shares	3	(2)
Dividends from available-for-sale shares	4	2
Profit on sale of shares and activities of affiliated companies	-	8
Total investment in shares	**18**	**59**
5. Net income on the sale of loans	**-**	**10**
Total non-interest financing income from operations not for trading purposes	**88**	**183**
B. Non-interest financing income from operations for trading purposes[4]:		
Net income in respect of other derivative instruments	7	6
Net realized and non-realized income on adjustment of trading bonds to fair value[1]	29	1
Net realized and non-realized income on adjustment of trading shares to fair value[2]	[6]-	[6]-
Total from trading operations[5]	**36**	**7**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:		
Interest rate exposure	32	4
Foreign currency exposure	2	1
Share exposure	2	2
Total according to risk exposure	**36**	**7**
Total non-interest financing income	**124**	**190**

Footnotes:

(1) Of which, a part of the income relating to trading bonds that are still on hand at balance sheet date	11	[6]-
(2) Of which, a part of the income relating to trading shares that are still on hand at balance sheet date	[6]-	[6]-

(3) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations.
(4) Including exchange rate differences from trading operations.
(5) For interest income on investments in trading bonds, see Note 10, above.
(6) An amount lower than NIS 1 million.
(7) Reclassified from accumulated other comprehensive income, see Note 13.

12. BUSINESS SEGMENTS - CONSOLIDATED

A. **General.** Equity is being allocated to each segment according to risk assets of the particular segment, in respect of which the segment is credited with theoretical interest. The return of each segment is computed according to the amount of equity allocated to the segment. As detailed in Note 31 B 3 to the financial statements as of December 31, 2013, in 2013 the equity allocated to the various segments was at the rate of 8%. Beginning with January 1, 2014, equity is allocated to the different segments at the rate of 8.5%, in accordance with goals determined by the Board of Directors.

B. **Changes in classification**

(1) Following the clarifications of the Supervisor of Banks, received by Mercantile Discount Bank during 2013, according to which, in the opinion of the Supervisor, it is right and proper to maintain a correlation between the amounts of credit reported in the Management Review for the "private individuals" sector and the amounts of credit reported in the Note on "business segments" in the "household" segment and in the "private banking" segment – Mercantile Discount Bank improved during the reported period the data base serving the various reports regarding business segments, in order to adjust the credit reports (and the income stemming from it) in this field, to reports on the distribution of credit by economic sectors, included in the Management Review;

(2) A reclassification by Mercantile Discount Bank intended to reflect the classification of institutional and large deposits from the private banking segment to the middle market banking segment;

(3) A change in the "price of money" in the allocation of resources to the segments in a manner that has increased the spread relating to mortgage operations from 0.3% to 0.7%;

(4) Improvement of the data relating to the average balances at the London Branch.

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	Unaudited							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
	For the three months ended March 31,2014							
Interest income, net								
- From external sources	234	229	274	163	4	-	114	1,018
- Intersegmental	54	(38)	(45)	(24)	79	-	(26)	-
Total Interest income, net	288	191	229	139	83	-	88	1,018
Non-interest financing income	3	2	11	3	1	15	89	124
Commissions and Other income	381	94	89	43	73	-	3	683
Total income	**672**	**287**	**329**	**185**	**157**	**15**	**180**	**1,825**
Credit loss expenses	(10)	(3)	54	35	(1)	-	-	75
Net Profit (loss) Attributed to the bank's shareholders	**(9)**	**58**	**54**	**24**	**18**	**13**	**7**	**165**
Return on equity (percentage)	**(1.4)**	**25.8**	**5.6**	**5.1**	**16.5**	**53.1**	**1.3**	**5.4**
Average Assets	38,488	13,083	39,011	19,012	4,727	1,026	82,216	197,563
Average Liabilities	68,221	15,707	22,227	10,517	35,292	729	32,453	185,146
	For the three months ended March 31,2013							
Interest income, net								
- From external sources	[4]237	[4]189	[4]323	[4]178	[4](21)	-	[4]138	1,044
- Intersegmental	[3][4]88	[3][4](4)	[4](84)	[4](42)	[4]104	-	[3][4](62)	-
Total Interest income, net	325	185	239	136	83	-	76	1,044
Non-interest financing income	5	1	24	3	10	47	100	190
Commissions and Other income	367	115	108	41	69	1	4	705
Total income	**697**	**301**	**371**	**180**	**162**	**48**	**180**	**1,939**
Credit loss expenses	17	22	102	22	(2)	-	(16)	145
Net Profit (loss) Attributed to the bank's shareholders	**(1)**	**47**	**58**	**35**	**9**	**42**	**73**	**263**
Return on equity (percentage)	**(0.3)**	**21.4**	**5.4**	**8.2**	**10.3**	**208.7**	**15.2**	**9.2**
Average Assets	36,756	12,222	[2]43,713	[2]18,957	4,150	916	[1][2]84,982	201,696
Average Liabilities	[2]68,891	16,687	[2]24,310	[1][2]10,518	[1][2]36,267	731	[1][2]32,553	189,957

Footnotes:

(1) Reclassified, see B (2).

(2) Reclassified, see B (4).

(3) Reclassified, see B (3).

(4) Reclassified, see B (1).

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	Audited							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	For the year ended December 31, 2013							
	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
Net Profit (loss) Attributed to the bank's shareholders	**(20)**	**202**	**278**	**170**	**(13)**	**96**	**161**	**874**
Return on equity (percentage)	**(0.9)**	**21.5**	**6.7**	**9.7**	**(3.0)**	**80.1**	**6.6**	**7.3**
Average Assets	(1)37,352	(1)12,313	41,711	19,031	(1)4,151	1,027	83,582	199,167
Average Liabilities	(1)68,097	(1)17,395	23,265	10,118	(1)33,280	756	34,186	187,097

Footnote:
(1) Reclassified, see B (4).

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A. Changes in other comprehensive income (loss) attributed to the bank's shareholders[1]

	Adjustments, net, for presentation of available-for- sale securities at fair value	Financial statements translation adjustments, net after hedge effects[2]	Net income (loss) in respect of cash flows hedge	Total
	in NIS millions			
1. For the three months ended March 31, 2014 and 2013 (unaudited)				
Balance at December 31, 2013 (audited)	179	(305)	(6)	(132)
Net change during the period	120	16	-	136
Balance at March 31, 2014	**299**	**(289)**	**(6)**	**4**
Balance at December 31, 2012 (audited)	415	(81)	(10)	324
Net change during the period	(81)	(73)	1	(153)
Balance at March 31, 2013	**334**	**(154)**	**(9)**	**171**
2. For the year 2013 (audited)				
Balance at December 31, 2012	415	(81)	(10)	324
Net change during the year	(236)	(224)	4	(456)
Balance at December 31, 2013	**179**	**(305)**	**(6)**	**(132)**

Footnotes:
(1) There are no amounts attributed to the non-controlling interests holders.
(2) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

B. Changes in other comprehensive income (loss) attributed to the bank's shareholders[1]

	Unaudited						Audited		
	For the three months ended						For the year ended		
	March 31, 2014			March 31, 2013			December 31, 2013		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Adjustments for presentation of available-for- sale securities at fair value									
Net unrealized income (loss) from adjustments to fair value	291	(105)	186	6	(3)	3	27	10	37
Loss (income) on available for sale securities reclassified to the statement of income[3]	(120)	54	(66)	(129)	45	(84)	(434)	161	(273)
Net change during the period	**171**	**(51)**	**120**	**(123)**	**42**	**(81)**	**(407)**	**171**	**(236)**
Translation adjustments									
Financial statements translation adjustments[2]	15	1	16	(77)	3	(74)	(227)	-	(227)
Hedge	-	-	-	6	(5)	1	4	(1)	3
Net change during the period	**15**	**1**	**16**	**(71)**	**(2)**	**(73)**	**(223)**	**(1)**	**(224)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	-	-	-	-	-	-	1	-	1
Net (income) loss in respect of cash flow hedging reclassified to the statement of income	1	(1)	-	2	(1)	1	6	(3)	3
Net change during the period	**1**	**(1)**	**-**	**2**	**(1)**	**1**	**7**	**(3)**	**4**
Total net change during the period	**187**	**(51)**	**136**	**(192)**	**39**	**(153)**	**(623)**	**167**	**(456)**

Footnotes:
(1) There are no amounts attributed to the non-controlling interests holders.
(2) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.
(3) The pre-tax amount is reported in the statement of income in the item "non-interest financing income". For details see the note on non-interest financing income.

14. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI")

A. Data regarding the investment in FIBI

On March 31, 2014 the Bank's holdings in FIBI were 26.45% in the equity and in the voting rights.

The market value of the Bank's holdings in FIBI totaled on March 31, 2014: NIS 1,530 million. The market value of this investment at May 18, 2014: NIS 1,533 million.

B. 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 directions of FIBI from among candidates recommended by Discount Bank. Details regarding the highlights of the agreement and regarding the approvals of the Supervisor of Banks and the Antitrust Commissioner with respect to the agreement, including the timetable determined by the Antitrust Commissioner for the reduction in the interest held by Discount Bank in FIBI, were brought in Note 6 E (1) to the financial statements as of December 31, 2013.

C. 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 net NIS 158 million.

14. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI") (CONTINUED)

D. **Provision for impairment in the financial statements as of March 31, 2014.** In continuation to that stated above, the financial statements as of March 31, 2014, include an additional provision in the amount of NIS 26 million.

E. **Loss of material influence.** 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). Two directors that had been appointed on recommendation of the Bank, resigned on March 26, 2014. (The third director has been appointed as an external director and continues in office).

In accordance with the reporting instructions of the Supervisor of Banks, the shares are stated in the financial statements as of March 31, 2014, as available-for-sale shares, at their fair value.

The item representing the investment by the equity method of accounting has been abolished in the financial statements as of March 31, 2014, the balance of which being classified to the item "available-for-sale securities". Also abolished were the capital reserves that had been recognized in other comprehensive income during the period of holding the investment in FIBI and their balance in an amount of NIS 13 million was classified to the statement of income.

15. CREDIT CARD ACTIVITY

Amended cross clearing arrangement – reduction of the issuer commission rate. Note 34 B (1) to the financial statements as of December 31, 2013, described, among other things, an amended cross clearing arrangement. The agreement determined, among other things, that the reduction of the issuer commission, to 0.7%, shall be applied gradually, as detailed in the amended arrangement, as follows:

(1) Until June 30, 2012, the issuer commission will amount to an average rate not exceeding 0.875%;

(2) As from July 1, 2012, the issuer commission will be reduced for a period of six months, to an average rate not exceeding 0.8%. Also, the addition at the rate of 0.15% in respect of transactions where the magnetic strip on the credit card or on the clever card has not been read at the Point of Sale (P.O.S.), shall be cancelled;

(3) As from January 1, 2013, the issuer commission will be reduced for a period of six months, to an average rate not exceeding 0.75%;

(4) As from July 1, 2013, the issuer commission will be reduced for a period of one year, to an average rate not exceeding 0.735%;

(5) As from July 1, 2014 and until the termination of the arrangement period (December 31, 2018) the issuer commission will be reduced to an average rate not exceeding 0.7%.

The four first stages, as detailed above, have been implemented on the due dates.

The Antitrust Tribunal approved on March 7, 2012, the said compromise arrangement. On April 29, 2012, Clalit Health Services filed an appeal with the Supreme Court against the decision of the Antitrust Tribunal. The appeal focused on the "Clalit" arguments, with regard to its non-classification in the bottom category of trading houses. On March 17, 2014, the Supreme Court dismissed the appeal.

The effect of the reduction in the cross commission results from various parameters, including: the scope of commissions collected from trading houses, the scope of royalties paid to banks with whom ICC is engaged in a joint issuance agreement, various operating commissions, the volume of clearing operations, including the opening to competition of the IsraCard credit card market, and more. It is difficult to evaluate each one of the said parameters in itself and to evaluate their combined effect and particularly in view of the fact that their effect is reflected gradually over a period of time. In view of the above, ICC believes that it is not possible to assess the scope of the effect of the reduction in the cross commission on its business results. However, ICC and the Bank are of the opinion that the business results of ICC will be materially adversary affected as a result of the said reduction in the cross commission.

A joint issuance agreement 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.

15. CREDIT CARD ACTIVITY (CONTINUED)

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.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY

On March 19, 2013, the team examining the increase of competition in the banking industry submitted its final report, the team, headed by the Supervisor of Banks ("Zaken Committee"), 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 principal provisions 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;

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- 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.

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", was 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);

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- On October 8, 2013, the Supervisor of Banks issued a letter in the matter of service routes, according to which, the amendment in its final version as will be published in the Official Gazette will enter into effect on April 1, 2014. According to that stated in the letter, a banking corporation has to provide to the Supervisor, until February 10, 2014, data regarding the price of each service route of the banking corporation, the manner of determining the pricing in each route together with the grounds thereto as well as the list of services included in "extended plus" route (to the extent that the banking corporation offers such route). The Bank has delivered the said information to the Supervisor of Banks.

The Bank is preparing for the implementation of the Amendment.

Banking Order (Service to customer) (Supervision over basic channel service), 2014. This Order, which was published on the Official Gazette on March 26, 2014, imposes supervision over the basic service channel and determines that its maximum cost would be NIS 10. The Order is effective as from April 1, 2014.

The Bank is preparing for the implementation of the amendment to the commission rules and the said Order, and accordingly the commission channels at the Bank became effective on April 1, 2014.

Draft amendment to the Banking Rules (Customer service) (Commissions), 2008. On May 11, 2014, the Supervisor of Banks published an updated draft of the Amendment.

The principal items of the draft are: commission tracks: A banking corporation has to allow any customer to join a commission channel by informing the bank at the branch or via fax or by the customer's account on the Internet or by a recorded telephone message; bank transactions exceeding the number of transactions determined for the commission channels, are subject to the notes stated in the full pricelist relating to transactions effected at the counter at a price of a direct channel transaction; total commissions which a bank may charge in respect of account closing operations as detailed in the full price list does not include commissions in respect of tracks; the full price list has to add that the basic track is under supervision. In respect of a transfer by the RTGS system of an amount of up to NIS 1 million, a teller operation commission will be charged, while the commission stated in the full pricelist in respect of a transfer by the RTGS system would apply to a transfer of amounts of over NIS 1 million; no commission may be charged in respect of a direct channel operation in respect of charge transaction using an immediate debit card; changes are to be made regarding a teller cash handling commission (a single fixed commission shall be charged in respect of bills and coins); a commission may be charged for the issue of an ownership confirmation starting with the second confirmation in a calendar year; housing loan ledger fees are to be abolished; collection fees in respect of non-housing loans granted immediately prior to the application of the new rules, will be abolished.

The part of the credit cards in the full pricelist: a deferred payment commission will be 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 will include 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 will be added for customers receiving from the bank clearing services for debit card transactions.

The Deputy Supervisor of Bank's letter regarding service channels. In order to verify that the banking corporations are integrating the Amendment relating to commission channels and bringing it to the awareness of the public, the Deputy Supervisor of Bank instructed the banking corporation on May 7, 2014, to take several actions: to distribute until May 31, 2014, to customers of the banking corporation to whom the commission rules apply, an explanatory letter regarding the basic and expanded channels, as well as publish by May 21, 2014, the contents of this letter on the Internet website of the banking corporation; submit to the Supervisor of Banks, by May 21, 2014, information and data regarding the number of customers who had joined the various channels (with respect to the month of May – by June 5, 2014, and as regards June – by July 5, 2014); the guidelines provided to representatives of the banking corporation with respect to the manner of joining the commission channels; control measures instituted with respect to these guidelines; marketing or advertising activities made in order to make customers aware of the commission channel service.

The Bank is preparing to implement the requirements of the letter.

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 May 11, 2014.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

The principal provisions of the Amendment are:

- Granting the Commissioner the power to determine types of account and terms, which, if in existence, the signature of the customer on certain types of agreements stated in the rules, would not be required;
- Requiring the banking corporation to publish on its Internet website agreements of the certain types stated in the rules, and which are considered uniform contracts, as defined in the law;
- Requiring the banking corporation to deliver to the customer a copy of an agreement or a document of the types detailed in the rules, which did not required the customers signature, at the earliest possible date immediately following the receipt of the customer's consent to their contents;
- Determining various changes relating to the notices which a banking corporation has to deliver to customers regarding changes in the terms of managing their accounts and in the terms of the agreements with them;
- 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;
- Authorization of The Supervisor of Banks 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;
- Determining an additional exception to the instruction with respect to the non-delivery of notices under the rules to a customer residing abroad, and who has not provided an address in Israel for delivery of notices, and this in case where the customer has asked to receive notices via the Internet website of the bank;
- Determination that a banking corporation is required to inform the data that has to be delivered under the rules, in respect of a loan for a period exceeding one year, which is repayable in installments, within sixty days from the end of each year.

Proper Conduct of Banking Business Directive No. 414 in the matter of disclosure of service cost. The instruction was published by the Supervisor of Banks on April 3, 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. The directive will become effective on January 1, 2015.

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".

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

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 as 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 26, 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 each one of the communication means defined in the amendment; instructions have been determined regularizing the response to the customer and to the beneficiary within five 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.

Law Memorandum – Regulation of Off-Banking Loans Act (Amendment No. 3) (Institutional lenders, maximum interest and penalties), 2014. In February 2014, the Ministry of Justice published for public comment the Law Memorandum prepared in the wake of the recommendations of the Zaken Committee. In the framework of the Memorandum it is proposed to apply also to banks the limitation existing in the law in respect of off-banking entities. At this stage it is not yet possible to assess the effect of the Amendment upon the Bank.

Draft Proper Conduct of Banking Business Directive in the matter of the opening of accounts via the Internet. On April 30, 2014, the Supervisor of Banks published this draft, constituting an additional layer in the adoption of the Zaken Committee recommendations. The draft details the matters required from banking corporations, which are interested in allowing the opening online of bank accounts for customers, and determines limitations on operations in such accounts, designed to reduce the risks involved in conducting an online account.

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 Group will be adversely affected by an amount assessed at approx. NIS 100 million per year. It should be noted in this respect that difficulties arose in masking this assessment, among other things, due to the low level of activity at this time, including with respect to the securities field, which does not necessarily reflect the average multi-annual level of activity. Furthermore, uncertainty exists with respect to the manner of implementation of certain moves.

17. 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 settlement of the disputes regarding deposits of U.S. citizens with Swiss banks (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. 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.

The Bank informed IDB (Swiss) Bank that as long as it maintains the control thereof, it is the Bank`s intension to secure the financial ability of IDB (Swiss) Bank to comply with the regulatory requirements in Switzerland, as required for its business activity.

18. ASSETS HELD FOR SALE - CONSOLIDATED

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, the financial statements as of December 31, 2013 recorded a provision 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 March 31, 2014, and as of date of signing this report, no sale agreement has yet been formed. Subsequent to balance sheet date, the entity with whom negotiations have been conducted in this matter, informed of the withdrawal from his intention to purchase DBLA (due to circumstances that are not related to the Bank, Bancorp, IDB New York or to DBLA). The Managements of the Bank and of Bancorp and IDB New York continue in their effort to advance the sale.

It should be noted that 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.

18. ASSETS HELD FOR SALE - CONSOLIDATED (CONTINUED)

Following are data regarding assets and liabilities classified as held for sale (which includes also assets of the Bank in a negligible amount):

	Unaudited		Audited
	March 31		December 31
	2014	2013	2013
	in NIS millions		
Assets classified as held for sale			
Cash and deposits with banks	1,702	-	1,659
Securities	1,895	-	1,935
Credit granted to the public, Net	525	-	500
Credit granted to Governments	20	-	24
Buildings and equipment	56	2	58
Other assets	19	-	28
Total	**4,216**	**2**	**4,204**
Liabilities classified as held for sale			
Deposits from the public	3,870	-	3,872
Deposits from banks	35	-	15
Other liabilities	34	-	44
Total	**3,940**	**-**	**3,931**
Guarantees and Unutilized credit line	**110**	**-**	**129**

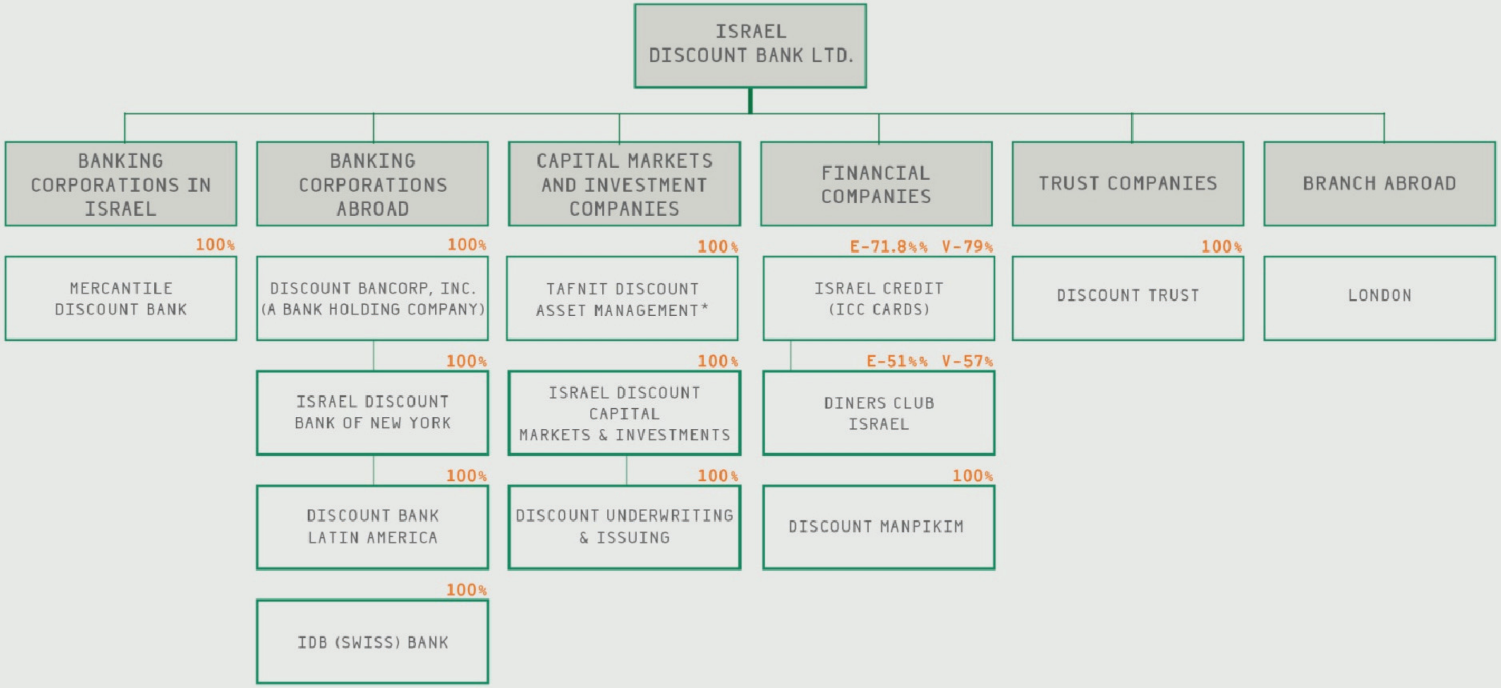
19. APPROVAL OF TRANSACTIONS

Note 22 F and G to the financial statements as of December 31, 2013, included a description of the remuneration plan for the Chairman of the Board. The annual award to the Chairman of the Board in respect of the year 2013, in the amount of NIS 2,160 thousand, will be brought for approval of a special meeting of the Bank`s shareholders convened for June 18, 2014, following its approval by the Remuneration Committee of the Board of Directors.

20. PUBLICATION OF A SHELF PROSPECTUS

On May 22, 2014, the Bank`s Board of Directors approved the publication of a shelf Prospectus, allowing the raising of funds through a variety of instruments. It is noted that at this stage, the Bank has no plans to raise funds in accordance with the shelf Prospectus.

Discount Group Structure



* Directly and Indirectly

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
Tafnit Discount Asset Management
Israel Discount Capital Markets & Investments
Discount Underwriting & Issuing

FINANCIAL
Israel Credit Cards
Diners Club
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