2015 Annual Report

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This translation of the financial statement is for convenience purposes only.
The only binding version of the financial statement is the Hebrew version

Message from the Chairman of the Board of Directors

The macro-economic data for the global and Israeli economy in 2015 have created a complex, challenging environment for the Israeli banking system.

Developments in the global and local economy

In the first three quarters of 2015, growth in the US economy was more moderate. This was due to a slow-down in global economic activity, due to the stronger USD vs. major world currencies and following a continued decline in energy prices. US GDP grew in the third quarter of 2015 at an annualized 2.0% after growing at 3.9% in the previous quarter and growing at 0.6% in the first quarter of this year.

The Euro Zone economy improved slightly in 2015, although economic recovery slowed somewhat in the third quarter.

China's GDP grew in the fourth quarter of 2015 at an annualized 6.8% after growing at 6.9% in the previous quarter and growing at 7.2% in the corresponding period last year. In 2015, China's economy grew by 6.9%, compared to 7.3% last year - the lowest growth rate recorded in China over the past 25 years. This was mostly due to a slowdown in exports and further weakness in industrial output growth.

According to preliminary estimates for the second half of 2015, published by the Central Bureau of Statistics, Israeli GDP growth in 2015 was 2.6%, similar to last year and compared to 3.3% growth in 2013. Growth was negatively impacted by lower imports of goods and services and investment in the economy. Conversely, private consumption grew at a high rate.

In 2015, the Consumer Price Index decreased by 1.0%, following a decrease of 0.2% last year. The lower CPI was primarily due to lower prices of transportation and communication and prices of home maintenance. The decrease was partially offset by higher prices of fruits and vegetables.

In 2015, the Bank of Israel lowered its interest rate once, from 0.25% at the end of 2014 to 0.10% in March 2015 - given the stronger NIS against the currency basket, more moderate inflationary expectations and continuing expansive monetary policy in major world economies.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first eleven months of 2015 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 46,920 apartments, an increase of 28.1% over the corresponding period last year and an increase of 12.7% over the corresponding period in 2013. This was due, *inter alia*, to the decision to increase the purchase tax terminated the "0% VAT" program. Housing prices in terms of the most recent 12 months, increased in November 2015 by 7.6%, compared to 5.9% in November 2014 and to 4.6% in all of 2014.

In 2015, housing loans given to the public amounted to NIS 64.5 billion, compared to NIS 51.6 billion in the corresponding period last year - an increase of 25.4%.

Major trends in banking

The banking system has been facing several key challenges in recent years:

Moderate economic activity, with a low interest rate and inflation environment over time, which impairs bank profitability; More moderate global growth, impacted *inter alia*, by weaker emerging markets, results in a trend of transition from global multi-national banking to local banking; Rapid development of digital banking, based on the Internet platform and on increased use of cell phones, which allows technology companies to enter the financial brokerage arena; Growing competition in the household segment and in the small and medium business segments, given the focus of the banking system on these segments, along with increased new entries from institutional investors and credit card companies.

These effects are in addition to development in regulation of various areas, such as: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors - credit associations and co-operative banks; Stricter requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system; Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.

Appointment of the Shtrum Committee

Further to the trend of expanding regulatory directives on June 3, 2015 the Finance Minister announced the appointment of the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee"). The objective of this Committee is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer power).

On December 14, 2015, the Committee issued its interim report, containing several recommendations:

Adding new players - supervised non-bank entities - and creating conditions which would allow them to compete with banks, with an emphasis on information and the capacity to raise capital needed for their operations.

The Committee recommended separating control and ownership of major banks from credit card companies. This is because the Committee regards credit card companies as the most significant potential for increased competition in the retail segment, due to their having information and familiarity with clients.

Allowing consumers in Israel to select and receive financial services from all financial institutions with no need to transfer their checking account. This would be done by establishing the technology infrastructure which would allow financial transactions to be made "at the click of a button", even through competing financial institutions, regardless of where the checking account is managed.

Further expansion of Bank business, despite the macro-economic environment

Given this complex reality, Mizrahi-Tefahot posted some notable achievements over the past year. In 2015, the Bank continues to post significant growth in various parameters:

Loans grew by 7.9%, deposits from the public grew by 6.6%, financing revenues grew by 9.8% and shareholder equity grew by 9.7%. The Bank achieved a record net profit of NIS 1,134 million, with return on equity at 10.0%.

In conformity with our growth strategy, as opposed to the general trend in the banking system, in 2015 we opened new branches - of which two are in the Arab sector: in Kfar Yasif and in Um El Fahem, in line with the Board resolution to expand Bank business in this sector. Concurrently, we have increased our service-oriented staff, developed tools to improve the client service experience and maintained a moderate 4.1% increase in payroll expenses. Thus we succeeded, in 2015 as well, to post an outstanding Cost-Income Ratio of less than 60%. Note that the Bank is expected to further expand its branch network in 2016 and to intensify operations with the Arab and Jewish Orthodox sectors, as well as with retirees.

We have implemented across the Bank - and in particular in client contact points - the "Joyful Banking" campaign, which we announced in late 2014 - which allowed us to significantly improve the service experience for existing clients and to recruit tens of thousands of new clients. Satisfaction surveys we regularly conduct among our clients indicate that over time, the Bank benefits from an image advantage due to the quality of the banking service it provides and is considered by the general public to be the bank with the best-served clients.

Human, advanced Bank

In 2015, the banking system saw two distinct service concepts emerging: One regards technology as a substitute for personal banker service, striving to convert more and more services - which previously have been provided to clients by their banker at the branch - with applications and other technological means, which would result in clients conducting most of the banking transactions by themselves; the other - led by Mizrahi-Tefahot - optimally integrates the human banker and the machine, designating for technology and digital channels, which are definitely evolving rapidly, a role in improving the client service experience, alongside the human banking.

The Bank has acted to streamline and improve its Hybrid Banking, with the personal banker in the branch at its center - expanding it to other segments, based on the concept that the unique added value which a human, professional and experienced banker brings to the relationship with the client is irreplaceable.

In the mortgage sector, Mizrahi-Tefahot continued to be the largest, leading bank in Israel while maintaining low risk in terms of LTV and repayment ratios.

Concurrently, in 2015 we also increased loans to small businesses, by 9.5%, and recruited thousands of new business clients. We increased our business volume both independently and through special specialized funds. Recently, Mizrahi-Tefahot was awarded a Government tender to provide loans to small businesses, guaranteed by the Government - which would allow us to continue to grow in this segment in coming years. Expanding our business in the small business segment is a major target of the 2016 work plan, too.

Mizrahi-Tefahot ranked first over the past year in raising capital. In 2015, the Bank raised a record NIS 7 billion in multiple issues. Concurrently, the Bank intensified co-operation with institutional investors - both through including them on syndicated loans and by selling parts of the Bank's loan portfolio in various segments. This co-operation allows the Bank to lead financing transactions relatively large in volume and to continue growing its lending, while improving its Tier I capital ratio - which reached 9.50% at the end of this year.

In 2015, the Bank launched two innovative transactions: Raising Tier II capital through CoCo debentures by private placement with multiple institutional investors and sale of part of the Bank's mortgage portfolio to an institutional investor. In 2016, we intend to continue evaluating such co-operation, which optimally serves the needs of both the Bank and the institutional investors.

As noted, in 2015 Mizrahi-Tefahot significantly increased its deposits from the public, primarily households and small businesses. The Bank's liquidity coverage ratio (LCR) continuously increased in 2015, reaching 96% at the end of this year.

Over the past year, Mizrahi-Tefahot continued to improve its risk management and compliance culture. The Bank delivered many training and implementation sessions to all branches and headquarters units, in order to increase awareness of these issues and to integrate these into the daily routine.

Promoting and empowering human resources

As part of the deployment of "Joyful Banking", Mizrahi-Tefahot has taken various steps designed to promote and empower the Bank's human resources. This campaign includes many activities, which are integrated with routine work and which are designed to create a more comfortable, pleasant work environment, as well as to expand the knowledge and professional development of employees. Other activities take place, financed and sponsored by the Bank, during employees' free time, such as the Good Film Club, group walks along the Israel Trail and other activities, to which family members are also invited. Mizrahi-Tefahot is the "youngest" bank in the system - the average age of Bank employees is 39.5 - and is also the Bank with the highest percentage of employees holding a university degree - 70%.

Social involvement and charitable donation

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement in the community and to support populations with special needs.

As part of this effort, 125 Bank branches and headquarters units conduct, with Bank financing, volunteer activities with various social organizations acting on behalf of children and youth in need. The Bank also conducts various endeavors to benefit populations in need. These activities are carried out with involvement of Bank employees, their families and even Bank clients. The "Let us meet at Mizrahi-Tefahot" project was expanded with many thousands attending, some who are not even Bank clients.

In 2015, the Bank Group allocated NIS 8.5 million to social involvement and charitable donation. In addition, Bank employees and managers invested work hours valued at NIS 4.3 million.

2016 work plan: Continued growth

It is possible to estimate that 2016, as well, would see a challenging macro-economic environment. The volatility in capital markets around the world in recent months, as well as the sharp volatility in oil prices, are in addition to many geo-political question marks which definitely have implications for the state of the economy and its ability to return to past high growth rates. In the financial-banking sector, competition in the banking system should continue to increase, with likely addition of other institutional investors and new players who would seek to secure a growing share of the banking pie. Regulatory directives, legislation and other moves, such as the Shtrum Committee, pose great risks and rewards to banks - and would require them to adapt their operations to the new reality.

Mizrahi-Tefahot's 2016 work plan poses ambitious targets for continued business growth at the Bank. As for service, the Bank would continue to develop its advanced, human service concept which optimally integrates technology with a personal banker at the branch. Concurrently, the Bank would strive to maintain its leadership position in the mortgage market, would intensify its business with the Arab and Jewish Orthodox sector and with the business sector - and would make efforts to further increase its market share, clients and business volume. All this, while maintaining the capital targets and various regulatory ratios and maintaining a low, high-quality Cost-Income Ratio.

On behalf of members of the Board of Directors, allow me to express my deep gratitude to management and to thousands of dedicated, professional employees and managers at the Bank - for their contribution to the Bank's success in 2015. I am positive that, with their help, we would also achieve the targets of the 2016 work plan.

M. Vidman

Moshe Vidman
Chairman of the Board of Directors
Approval date:
Ramat Gan, February 24, 2016

Report of the Board of Directors and management

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Tables included in the Report by the Board of Directors and management

Report of the Board of Directors and management

Submitted to the General Meeting of Shareholders

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on February 24, 2016, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2015.

The Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives of the Supervisor of Banks.

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For material core issues, the Supervisor of Banks' directives are based on generally accepted accounting principles at US banks.

The Report of the Board of Directors and Management and the 2015 Financial Statements are prepared, for the first time, in conformity with the new format stipulated by the Supervisor of Banks.

After the Notes to the financial statements is a chapter on corporate governance, audit, other information about the Bank and its management and addendums to the annual financial statements.

As part of the new format of the financial statements, additional information for the financial statements is provided on the Bank website:

www.mizrahi-tefahot.co.il >> information about Mizrahi-Tefahot >> investor relations >> financial statements

This additional information includes a detailed Risk Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB).

The Bank website also includes additional supervisory information with details of capital instruments issued by the Bank.

Forward-Looking Information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, so that there is a possibility that events or developments predicted to be reasonable would not material, in whole or in part.

Overview, targets and strategy

This chapter describes the Bank, its lines of business, performance, risks to which it is exposed as well as its targets and strategy.

Bank Group and its lines of business

Mizrahi Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi Tefahot Bank Ltd.

The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 177 branches and business centers. Furthermore, business clients are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via 3 bank affiliates (two branches and a subsidiary) and 4 representative offices in Europe and Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, management of securities portfolios for clients, pension advisory service, trust services, distribution of mutual funds, operation of provident funds and insurance incidental to mortgages.

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2015):

Loans to the public	17.8%
Deposits from the public [(1)]	15.2%
Balance sheet total	15.0%
Shareholder equity	12.5%

(1) The Bank Group's share of deposits from the public, among the five top bank groups, excluding deposits from institutional investors, as of September 30, 2015 was 13.5%, compared to 12.5% as of December 31, 2014.

Condensed financial information and key performance indicators for the Bank Group

Condensed data

	For the year ended December 31,			Change in % over	
	2015	2014	2013	2014	2013
				NIS in millions	
Annual profit and profitability - major items					
Interest revenues, net	(1)3,534	(1)3,375	3,464	4.7	2.0
Non-interest financing revenues	358	173	14	-	-
Commissions and other revenues	(1)1,500	(1)1,439	1,485	4.2	1.0
Total revenues	5,392	4,987	4,963	8.1	8.6
Expenses with respect to credit losses	211	173	288	22.0	(26.7)
Operating and other expenses(2)	3,226	3,039	2,951	6.2	9.3
Profit before provision for taxes(2)	1,955	1,775	1,724	10.1	13.4
Provision for taxes(2)	761	657	593	15.8	28.3
Net profit(2)(3)	1,134	1,092	1,083	3.8	4.7

	As of December 31			Change in % over	
	2015	2014	2013	2014	2013
				NIS in millions	
Annual balance sheet – major items					
Balance sheet total(2)	209,158	198,513	179,545	5.4	16.5
Loans to the public, net	159,204	147,569	138,565	7.9	14.9
Securities	11,845	14,259	7,000	(16.9)	69.2
Deposits from the public	162,380	152,379	141,244	6.6	15.0
Debentures and subordinated notes	23,719	20,580	16,443	15.3	44.2
Shareholders' equity(2)(3)	11,847	10,797	9,681	9.7	22.4

	2015	2014	2013
Key financial ratios (in percent), annual			
Net profit return on equity(2)(3)	10.0	10.6	11.8
Deposits from the public to loans to the public, net	102.0	103.3	101.9
Capital to total assets(2)	5.66	5.44	5.39
Ratio of Tier I equity to risk elements(2)	(4)9.50	(4)9.05	8.94
Total ratio of capital to risk elements(2)	(4)13.29	(4)12.97	12.97
Leverage ratio(5)	5.32	-	-
(Quarterly) liquidity coverage ratio(6)	91	-	-
Cost income ratio(2)(7)	59.8	60.9	59.5
Expenses with respect to credit losses to loans to the public, net for the period	0.13	0.12	0.21
Basic earnings per share (in NIS)(2)	4.90	4.74	4.74
Diluted earnings per share (in NIS)(2)	4.89	4.71	4.71

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues as from January 1, 2014, see Note 1.D.4 to the financial statements.
(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements. According to these directives, capital adequacy data only include retroactive application with regard to capitalization of software costs.
(3) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to equity holders of the Bank.
(4) Calculated in conformity with Basel III directives
(5) Leverage Ratio - ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218
(6) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations in the reported period.
(7) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

	For the quarter ended				
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	NIS in millions				
Quarterly profit and profitability - major items					
Interest revenues, net	820	933	1,082	699	846
Non-interest financing revenues (expenses)	127	151	(45)	125	43
Commissions and other revenues	390	358	375	377	383
Total revenues	1,337	1,442	1,412	1,201	1,272
Expenses with respect to credit losses	75	61	40	35	150
Operating and other expenses(1)	819	821	825	761	787
Profit before provision for taxes(1)	443	560	547	405	335
Provision for taxes(1)	197	213	204	147	128
Net profit(1)(2)	240	316	330	248	203

	For the quarter ended				
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	NIS in millions				
Quarterly balance sheet – major items					
Balance sheet total(1)	209,158	204,966	201,764	200,972	198,513
Loans to the public, net	159,204	157,996	152,317	150,694	147,569
Securities	11,845	11,306	15,833	13,802	14,259
Deposits from the public	162,380	158,107	153,736	153,002	152,379
Debentures and subordinated notes	23,719	23,196	22,648	20,804	20,580
Shareholders' equity(1)(2)	11,847	11,616	11,266	11,033	10,797

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Key financial ratios (in percent), quarterly					
Net profit return on equity(1)(2)(3)	8.4	11.5	12.4	9.4	7.8
Deposits from the public to loans to the public, net	102.0	100.1	100.9	101.5	103.3
Capital to total assets(1)	5.66	5.67	5.58	5.49	5.44
Ratio of Tier I equity to risk elements(1)	9.50	9.30	9.30	9.10	9.05
Total ratio of capital to risk elements(1)	13.29	12.76	12.86	12.66	12.97
Leverage ratio(4)	5.32	5.32	5.24	-	-
(Quarterly) liquidity coverage ratio(5)	91	84	84	-	-
Cost income ratio(1)(6)	61.3	56.9	58.4	63.4	61.9
Expenses with respect to credit losses to loans to the public, net for the period(3)	0.19	0.15	0.11	0.09	0.41
Basic earnings per share(1)	1.04	1.36	1.43	1.07	0.88
Diluted earnings per share(1)	1.03	1.36	1.42	1.07	0.88

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements. According to these directives, capital adequacy data only include retroactive application with regard to capitalization of software costs.

(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to equity holders of the Bank.

(3) Calculated on annualized basis.

(4) Leverage Ratio - ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218

(5) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations in the reported period.

(6) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2011 - 2015

Reported amounts (NIS in millions)

	2015	2014	2013	2012	2011
interest revenues	(1)4,906	(1)5,347	6,442	6,591	6,840
Interest expenses	1,372	1,972	2,978	3,377	3,741
Interest revenues, net	3,534	3,375	3,464	3,214	3,099
Expenses with respect to credit losses	211	173	288	276	338
Interest revenues, net after expenses with respect to credit losses	3,323	3,202	3,176	2,938	2,761
Non-interest revenues					
Non-interest financing revenues	358	173	14	95	18
Commissions	(1)1,426	(1)1,395	1,458	1,452	1,474
Other revenues	74	44	27	26	17
Total non-interest revenues	1,858	1,612	1,499	1,573	1,509
Operating and other expenses					
Payroll and associated expenses	1,944	1,866(2)	1,823(2)	1,704(2)	1,617(2)
Maintenance and depreciation of buildings and equipment	692	715(2)	690(2)	670(2)	(2)626
Other expenses	590	458	438	433	444
Total operating and other expenses	3,226	3,039	2,951	2,807	2,687
Pre-tax profit	1,955	1,775	1,724	1,704	1,583
Provision for taxes on profit	761	657(2)	(2)593	(2)594	(2)517
After-tax profit	1,194	1,118	1,131	1,110	1,066
Share in profit (loss) of associates, after tax	-	5	(4)	-	1
Net profit:					
Before attribution to non-controlling interest	1,194	1,123	1,127	1,110	1,067
Attributable to non-controlling interest	(60)	(31)	(44)	(50)	(38)
Attributable to shareholders of the Bank	1,134	1,092	1,083	1,060	1,029
Earnings per share(3)					
Basic earnings per share (in NIS):					
Total net profit attributable to shareholders of the Bank	4.90	4.74(2)	4.74(2)	4.70(2)	4.58(2)
Diluted earnings per share (in NIS):					
Total net profit attributable to shareholders of the Bank	4.89	4.71(2)	4.71(2)	4.67(2)	4.50(2)

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues as from January 1, 2014, see Note 1.D.4 to the financial statements.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(3) Share of NIS 0.1 par value.

Consolidated Balance Sheet – Multi-period information

As of December 31, 2011 - 2015

Reported amounts (NIS in millions)

	2015	2014	2013	2012	2011
Assets					
Cash and deposits with banks	30,489	26,798	26,060	16,671	15,972
Securities	11,845	14,259	7,000	9,041	8,432
Securities loaned or purchased in resale agreements	71	107	70	207	136
Loans to the public	160,604	148,912	139,880	130,244	120,931
Provision for credit losses	(1,400)	(1,343)	(1,315)	(1,593)	(1,638)
Loans to the public, net	159,204	147,569	138,565	128,651	119,293
Loans to Governments	316	307	305	317	196
Investments in associates	36	52	60	60	52
Buildings and equipment	1,583	(1)1,570	(1)1,536	(1)1,548	(1)1,527
Intangible assets and goodwill	87	87	87	87	87
Assets with respect to derivative instruments	3,527	5,602	3,606	3,518	3,115
Other assets	2,000	(1)2,162	(1)2,256	2,032	1,347
Total assets	209,158	198,513	179,545	162,132	150,157
Liabilities and Equity					
Deposits from the public	162,380	152,379	141,244	128,499	119,236
Deposits from banks	1,166	1,258	2,041	1,694	2,007
Deposits from the Government	58	55	62	107	152
Securities loaned or sold in conjunction with repurchase agreements	-	223	-	-	-
Debentures and subordinated notes	23,719	20,580	16,443	14,039	12,202
Liabilities with respect to derivative instruments	3,634	6,497	3,538	3,773	3,964
Other liabilities	5,786	(1)6,217	(1)6,058	(1)4,849	(1)4,607
Total liabilities	196,743	187,209	169,386	152,961	142,168
Shareholders' equity attributable to shareholders of the Bank	11,847	(1)10,797	(1) 9,681	(1) 8,730	(1)7,601
Non-controlling interest	568	(1) 507	(1) 478	441	388
Total equity	12,415	11,304	10,159	9,171	7,989
Total liabilities and equity	209,158	198,513	179,545	162,132	150,157

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Major risks

In its operations, the Bank is exposed to various risk factors which may potentially impact its financial results and Bank reputation.

The Bank conducts a structured process, at least once a year, for mapping the risks to which the Bank is exposed in the course of its business operations. This list is dynamically updated by new activities by the Bank or due to new or revised regulation. The risks mapping is sent for approval by management and by the Board of Directors and each risk is classified as material or non-material, based on the materiality threshold specified by the Board of Directors. This threshold is given in terms of the Bank's core capital. A risk manager is assigned to each material risk and the framework for handling such risk is incorporated in a specific policy document, sent for approval, at least once a year, to the Bank manages and Board of Directors. The policy document stipulates how risk is to be managed, how the risk is to be measured, the required reports with regard to them and their mitigation. In particular, the Board of Directors specifies the risk appetite, i.e. the allowed exposure cap for each risk. During the year, Bank units in the various lines of defense monitor the risk profile, to ensure that risk does not deviate from the specified risk appetite. This monitoring uses a wide range of benchmarks specified, which review how close the risk profile is to the specified risk appetite and is conducted as part of the Bank's quarterly Risk Exposure Report, which is discussed and approved by management and by the Board of Directors. Whenever any risk benchmark is getting close to the risk appetite and, definitely, in case of deviation from the Bank's risk appetite. In general, Bank management has zero risk appetite for deviation from risk restrictions specified by the Board of Directors.

The Bank's risks mapping listed the following major risks: Credit risk, market risk, interest rate risk (in particular, interest rate risk in bank portfolio), operational risk, legal risk, information security and cyber risk, reputation risk, liquidity risk, compliance and regulatory risk, AML risk and cross-border risk. As noted, the risks mapping is regular reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

For more information see chapter "Risks overview" below and the detailed Risk Management Report on the Bank website.

Below are definitions of the major risks to which the Bank is exposed in conjunction with its operations:

Credit risk - Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank.

Market risk – This is the risk of loss in on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest rate risk – The risk to Bank profit (change in revenues) or to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Operational risk – The risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. This risk is inherent in all products, activities, processes and systems. The framework for addressing operational risk also includes addressing of legal risk, defined in Proper Banking Conduct Directive 350 concerning

"Operational risk" as "including, *inter alia*, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements".

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

Liquidity risk – The risk to profit and stability of the banking corporation, due to its inability to satisfy its liquidity requirements.

Compliance and regulatory risk - The risk of imposition of legal or regulatory sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions (such as: statutory provisions, regulation, standards and conduct commonly expected from a corporation).

AML and terror financing non-compliance risk – The risk of imposition of legal or regulatory sanctions, of material financial loss or of damage to reputation and image, which the Bank may incur due to non-compliance with AML and terror financing provisions.

Cross-border risk – The risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of damage to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries - whether provisions are binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

Business goals and strategy

The strategic plan

On July 23, 2012 the Bank's Board of Directors approved a strategic plan for 2013-2017 (hereinafter: "the original strategic plan" or "the original plan"), based on the following principles, as approved on that date:

- The target set in the original plan is to present, in 2017, an average net operating profit return on equity of 17%, based on the target core capital ratio of 7.5%.
- On that date, the Bank Board of Directors instructed the Bank to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012, whereby the Bank should adopt by December 31, 2014 a target core capital ratio of no less than 9%, to be applied, if possible, as from January 1, 2014. Moreover, the Bank’s Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end. The core capital ratio will be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks. Consequently, the average equity basis used for Bank operations would be increased, therefore, arithmetically, any given profit would result in a lower return figure. Accordingly, the target average net operating profit return on equity, adjusted for the regulatory requirement for core capital ratio of 9% or higher, would be 14.5% in 2017. For comparison, this return on equity is equivalent to 17% based on regulatory capital requirements during the term of the previous strategic plan.

On December 23, 2014, the Bank’s Board of Directors resolved to update the original strategic plan and to set the target for net operating profit return on average equity attributed to equity holders, at 13% in 2017. This is due to changes in certain underlying assumptions of the original strategic plan, as follows:

- The effect of new regulatory directives issued after the original strategic plan was put in place and, in particular, the directive listed in section 14.A. of Proper Banking Conduct Directive no. 329 "Restrictions on extending housing loans" (hereinafter: "Regulation 329"); according to this regulation, for calculating the capital requirement as stated in Proper Banking Conduct Directive 201, banking corporations should increase their Tier I capital target by a percentage which reflects 1% of outstanding housing loans.

  Banking corporations are required to increase their capital target by fixed quarterly rates from January 1, 2015 to January 1, 2017. The Board of Directors has instructed Bank management to maintain proper safety margins so that the Bank's Tier I capital would not be lower than the aforementioned. Implementation of the aforementioned directives would increase the average shareholder equity base used for Bank operations and would result in a given profit generating a lower rate of return and, consequently, would reduce return on equity.
- Effect of macroeconomic conditions:
  - Economic growth in Israel in 2013 and in the first nine months of 2014, at an annualized average 2.8% only - compared to 3.5% as was the underlying assumption for the original strategic plan.
  - The inflation rate is below the target for price stability and monetary interest rates are at historical lows - which negatively impacts Bank profitability - as opposed to the underlying assumptions of the original plan, whereby the inflation rate would remain within the range of Government-set targets and interest rates would be in line with such level of inflation.

Furthermore, the Bank’s Board of Directors approved the dividend distribution policy (hereinafter: "the revised dividend policy"), replacing the dividend distribution policy described in section 1.C of the Immediate Report issued by the Bank on July 23, 2012 (reference no. 2012-01-191649) (hereinafter: "the previous Immediate Report"). The revised dividend policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to equity holders.
The revised dividend policy is subject to the Bank maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors and as described above.
In 2017, the dividends policies would be as specified in section 1.C. of the previous Immediate Report. This is subject to the Bank's Tier I capital ratio being no less than that required by the Supervisor of Banks' directives and subject to maintaining proper safety margins.
The Bank has received approval by the Supervisor of Banks for the aforementioned outline of its dividends policies.
Note that dividend distribution is subject to statutory provisions and to restrictions specified by the Supervisor of Banks.

For more information about dividend distribution, see chapter "Capital, capital adequacy and leverage" below.

Guidelines for achieving the strategic plan targets

Achieving return on equity of 13% is based on growing Bank revenues at an average annual rate of 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 4.5% (also not in linear fashion). Achieving these targets is based on the following principles:

- Continued high-pace growth in Bank core operations, at a higher rate than for all of the banking system, similar to Bank achievements over the past decade.
- Foster a service-oriented organizational culture.
- Maintain the operating efficiency ratio (total operating expenses to total revenues) and take steps to improve this ratio to less than 55%.
- Reinforce capital management capacity and prepare for issuing complex, innovative capital instruments.
- Reinforce the risks management capacity.

Maintain and improve the operating efficiency ratio based, *inter alia*, on efforts in the following areas: Reinforcing the Bank position as an efficient, service-oriented bank which controls expenses, constantly improves as part of the organizational culture, a performance-based remuneration plan, continued expansion of activity of the Back-office Operations Unit, transferring additional logistics and operations activities from the branches to this Unit, improved efficiency of the IT system and continued activity by Bank Yahav on development of price-focused banking service, offering an appropriate service alternative.

The Bank bases its five-year plan on several major goals and key business efforts in the following areas:

- Maintain Bank position as a leader in the mortgage market.
- Continue growing the Bank's market share in the household segment by operating LIVE branches, reinforcing the service concept based on Hybrid Banking, significant improvement in the professional, warm and personal service which the Bank provides to its clients and opening new branches while increasing the Bank's market share in the Arab segment.
- Position the Bank as a key service provider to small and medium businesses.
- Expand the business client base and form unique value propositions, in line with needs of such clients.
- Increase the Bank's market share of deposits from the public.
- Continue establishing the Bank's leadership position in currency markets and expand Bank market share in this segment.

The aforementioned plan (and revision made) is a strategic plan which specifies Bank objectives for 2015-2017 and does not constitute a forecast or assessment with regard to achievement of these objectives; as such, by its nature, the strategic plan may not materialize. Moreover and without derogating from the generality of the aforesaid, in as much as this plan includes forward-looking information, as defined in the Securities Act, 1968, this information is based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors, including: Absence of change in legislation and regulatory provisions which would impact the business environment; absence of geo-political developments and changes which would change or impact the business environment; stabilization of the global economy in coming years with per-capita GDP growing at between 0%-1%; growth of Israeli economy in coming years by 2.5%-3%; very moderate increase in interest and inflation rates in the Israeli economy, such that the inflation rate would be at the bottom of the target range set by the Government and interest rates being gradually in line with such inflation.

These assumptions may fail to materialize due to factors other than under the Bank's control, which may affect the aforementioned issues and cause the revised strategic plan, as described above, not to materialize.

For more information, see Immediate Reports dated December 24, 2014 (references 2014-01-229338 and 2014-01-229341). These mentions constitute inclusion by way of reference of all information provided in the aforementioned Immediate Reports.

Other than reported in the aforementioned immediate reports, there would be no change to other components of the original strategic plan listed in the previous Immediate Report.

The Bank’s Board of Directors will monitor execution of the strategic plan, and may make changes to this plan from time to time, as required, including due to changes in factors which may affect the plan, as described above.

This information constitutes forward-looking information, as defined in the Securities Law, -1968, based on assumptions brought before the Bank Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Major developments in business activities

In 2015, the mortgage market continued to grow, with housing loan origination in the banking system reaching a new high. The Bank is acting to reinforce its leadership position in the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers. Over the past year, the Bank succeeded in increasing its market share, while maintaining low risk attributes for LTV and repayment ratio out of borrower income.

The household segment is in the midst of growing competition, both from the banking system and from insurance companies and credit card companies - along with increased regulatory effects. On December 14, 2015, the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee") issued its interim report. The objective of this Committee is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer power). The Committee's vision of competition is defined by creating a more efficient market along with cost cutting for the economy, simplified competition for consumers and more diverse sources of credit and financial services offered to consumers.

The Bank's target is to increase its market share in the household segment, by expanding the client base with a focus on high-quality target audiences. Regulatory steps to increase competition in the household segment and to remove barriers to account transfer between banks - are an opportunity for increased client recruitment, based on the unique, high-quality personal service provided by the Bank. In this context, the Bank used the LIVE platform to recruit new clients and improve service to current clients, while developing this concept and expanding the value proposition.

The mortgage client base at the Bank is potential ground for increasing the client base in commercial activity - and Bank Yahav clients are reinforcement for the retail segment activity of the Group. The Bank also strives to expand in new client segments, including the Arab segment.

The Bank is focusing its effort on getting deposits from retail clients and from business clients, in order to improve the Bank's liquidity coverage ratio and in order to reduce the cost of sources required for its operations, leading to improved profitability. These efforts resulted in the Bank significantly increasing the scope of retail and business deposits in 2015, with a significant increase in the liquidity coverage ratio.

The Bank's business strategy emphasizes significant expansion of the client base and increase of the Bank's market share among small to medium business clients, with regular risk assessment at client level, at sector level and for the economy as a whole. The Bank addresses growing competition in these operating segments by increased marketing activities with clients, with client segmentation by type of occupation and needs and an overall view of their activities, as well as by expanding Bank activity in the State fund for small and medium businesses. In order to expand activity in the commercial banking segment, the Bank reorganized this activity under three business hubs. This infrastructure would support further expansion of operations in this segment in coming years.

Competition for provision of banking and financial services to the business banking segment has been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms. The Bank is facing competition in this segment by relying on the advantages of its human resources and on their knowledge and experience in providing professional service and in adapting banking solutions for client needs. The Bank's business strategy in this segment is directed toward maximizing the economic potential of the

capital by focusing on activities having high profitability relative to the capital needed for them, Concurrently, the Bank is acting to leverage its professional advantage by increased co-operation in consortiums with other entities.
In order to maximize the economic potential of capital, in 2015 the Bank sold loan portfolios to various institutional investors. For more information see chapter "Significant Events in the Bank Group's Business" below.
The Bank continues to maintain high operating efficiency through, *inter alia*, reorganization of assets and optimization of the branch network, including opening new branches in locations with potential for business growth - along with streamlining the existing branch network. For more information see chapter "Significant developments in management of Bank business".

This information constitutes forward-looking information, as defined in the Securities Law, -1968, based on assumptions brought before the Bank Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

The Bank holds 2,500,000 of its shares bought back in 2009, as approved by the Bank of Israel, for consideration of NIS 76 million. On January 30, 2013, the Bank of Israel allowed the Bank to use the shares held by the Bank for its 2013 stock option plan.

On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares. For more information see Note 24 to the financial statements.
On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set between the Bank and the Supervisor of Banks. On August 13, 2014, the Bank's Board of Directors approved the aforementioned share buy-back outline. The buy-back plan, including execution thereof, shall be brought for approval by the Board of Directors, should it be put into action.
Buy-back of Bank shares is tantamount to a dividend distribution.

For more information about share issuance in conjunction with an employee stock option plan, see statement of changes in shareholders equity on the financial statements.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different lines of business, an assessment is made of the impact of achieving these objectives on total risk assets for the Bank, and accordingly on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy, as stated above.

Bank management believes, in line with the forecasted outline of evolution of the core equity ratio and overall equity ratio, that no capital resources are required in the coming year in order to comply with the minimum equity ratio as required by Proper Conduct of Banking Business Regulation 201. For more information about the issue of contingent subordinated notes, see chapter "Developments in financing sources" and chapter "Significant Events in the Bank Group's Business" below.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

For more information about raising funds by means of obligatory notes and debentures, see chapter "Developments in financing sources" below.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of debentures as well as shareholder equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity and capital adequacy – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. They also specified quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk - as part of liquidity risk management.

Total deposits from the public for the Group as of December 31, 2015 amounted to NIS 162.4 billion, compared to NIS 152.4 billion at end of 2014 - an increase of 6.6%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2015 by 10.7%; deposits in the CPI-linked segment decreased by 12.0%; and deposits denominated in or linked to foreign currency increased by 5.0%; for more information see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.
As of December 31, 2015, the balance of the three largest depositor groups at the Bank Group amounted to NIS 10.4 billion.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorption of money for the entire banking system, and for Mizrahi Bank in particular. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity.

Another source for raising short-term funds is the inter-bank money market. In 2015, the banking system and the Bank had high excess liquidity and therefore use of this tool was negligible.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policies of the Bank of Israel.

Below is a survey of the monetary tools used by the Bank of Israel for the purpose of implementing its monetary policies:

Bank of Israel interest rate - The Bank of Israel publishes monthly the interest rate for the following month. This interest constitutes the base interest rate for tenders on loans and deposits made available to the banking system, as will be provided below.

Liquidity requirement - The directives of the Bank of Israel require banks to hold liquid balances for deposits from the public, at varying percentages, according to the period of the deposit. The required liquidity percentages are presently 6% on demand deposits and 3% on time deposits of one week to one year. As to deposits for periods of one year or more, there is no liquidity requirement. For more information about liquidity risks management by the bank, see chapter "Risk overview" below and the Detailed Risk Management Report on the Bank website.

Deposits with Bank of Israel to absorb excess liquidity - When there is excess liquidity in the system, the Bank of Israel absorbs it through tenders on deposits that it makes available to the banking system. The deposit tenders are for a short term of 1or 7 days. The maximum interest rate for these tenders is the stated interest rate of the Bank of Israel. Moreover, there is a window for depositing daily deposits in the Bank of Israel, unlimited in amount, at interest that is 0.10% lower than the Bank of Israel interest rate. The deposit window was revised from 0.25% to 0.10% at the end of February 2015, after the Bank of Israel lowered its interest rate from 0.25% to 0.10%. In 2015, the banking system - including the Bank - had excess liquidity, and throughout the year, the Bank of Israel offered deposit tenders for terms of one day / week . month in order to absorb this excess.

Short-term Government loans (MAKAM) - Another financial instrument used to absorb surplus shekel liquidity is the short-term Government loan (MAKAM), through regular issuances to the public and the activity of the Bank of Israel in the secondary market.

Tools for enhancing system liquidity - For the purpose of injecting liquidity into the banking system, the Bank of Israel makes available short-term credit tenders for 1-7 days, in which the minimum interest is the Bank of Israel interest. Moreover, the Bank of Israel provides a daily credit window at interest that is 0.10% higher than the Bank of Israel interest. The credit window was revised from 0.25% to 0.10% at the end of February 2015, after the Bank of Israel lowered its interest rate from 0.25% to 0.10%. Receipt of credit from the Bank of Israel, whether through the credit tender or the credit window, is limited to the collateral amount that each bank has in the Bank of Israel. In 2015, the banking system and the Bank had excess liquidity - and the Bank of Israel had no need to conduct any credit tenders.

Obligatory notes and debentures issued to the public

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("Mizrahi Tefahot Issuance"), a wholly-owned subsidiary of the Bank. Over the years, Mizrahi Tefahot Issue Company issued subordinated notes to the public under published prospectuses.

As of the balance sheet date, all obligatory notes (Series 27,30-31,33,35-42), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 19,769 million in total par value (as of December 31, 2014 - NIS 15,581 million), of which NIS 2,131 million in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually reduced subject to transition provisions).

In 2015, Mizrahi Tefahot Issuance issued debentures amounting to NIS 7,050 million par value for consideration amounting to NIS 7,084 million, pursuant to a shelf prospectus dated July 30, 2013.

On January 29, 2015, Tefahot Issuance issued debentures (Series 39), with total par value of NIS 3,150 million, for consideration of NIS 3,150 million.

On June 7, 2015, Tefahot Issuance issued 3 debentures series (Series 40, 41 and 42), with total par value of NIS 1,805 million, for consideration of NIS 1,804 million.

On July 23, 2015, Tefahot Issuance issued NIS 820 million par value debentures (Series 37) by way of private placement with qualified investors, for consideration of NIS 845 million.

On October 12, 2015, Tefahot Issuance issued debentures (extension of Series 40 and 41), with total par value of NIS 1,275 million, for consideration of NIS 1,285 million.

The proceeds from these issuances were deposited at the Bank under terms similar to those of issuances.

Complex capital instruments

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated notes (Series A). On May 21, 2007 the Bank published a prospectus under which the complex capital instruments were listed for trading in early June 2007. In total, the Bank issued and listed for trading additional complex capital instruments under the prospectus amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.

All of the Bank's complex capital instruments (Series A) as of December 31, 2015, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.
The complex equity instruments are included in Tier II capital but do not qualify as supervisory capital pursuant to Basel III directives - and are therefore gradually reduced in conformity with transitional provisions.

On December 30, 2015, the Bank issued for the first time contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 417 million. These notes qualify pursuant to Basel III provisions and recognized by the supervisor of Banks as Tier II capital.
In January 2016, after the balance sheet date, the Bank raised a further NIS 183 million.
Note that according to the Bank's capital planning forecast, the issue of contingent subordinated notes should fulfill the Bank's need for supervisory capital at least through 2017. Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.
The revalued balance of the complex capital instruments, including contingent subordinated notes, as of December 31, 2015 was NIS 2.4 billion, compared to NIS 2.0 billion as of December 31, 2014. See Note 25 to the financial statements for details.

Significant developments in management of business operations

Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.

Group branches are located nationwide, consisting of 177 business centers, branches and affiliates, including 45 Bank Yahav branches - as of December 31, 2015.
The Bank continues to expand its branch network in accordance with its strategic plan, with location selection based on considerations such as providing optimal service to clients, economic viability considerations etc.
In 2015, the Bank opened 3 new points of sale and consolidated several others with major branches located nearby, following the mapping of bank client needs and in order to improve service to clients. In 2016, the Bank is expected to open 4 more points of sale.

As part of the strategy designed to increase Bank market share in the Arab sector, the Bank opened 2 branches in Arab towns in the first quarter of 2015. The Bank is reviewing other expansion options.

The Bank operates a unique service – the LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, Internet, email, SMS, video conferencing). As of the publication date of these financial statements, the Bank operates 6 LIVE branches.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Direct channels

The policy applied by the Direct Banking sector concerning direct channels is as follows:

- Apply a multi-channel strategy, at the center of which stands the branch, and direct banking services constitute an integral part thereof.
- Develop Hybrid Banking as a primary channel for contacting your banker by telephone, email and SMS for the commercial banking and mortgage segments.
- Expand the range and diversity of services provided through direct banking channels (telephone, on line, cell phone, self-service stations and ATMs) and expand the use thereof.

Direct channels offered to Bank clients include:

Hybrid Banking services

Hybrid Banking is about integrating personal service accessible to clients with technology - telephone, email and SMS.

Hybrid Banking services are provided by Bank branches and banking centers, as follows:

- **Bank branches** – phone calls, emails and SMS messages from identified clients are directly routed to that client's banker and are answered by the banker or by the backup staff at the branch.
- **Banking center** – the branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. Service is provided 24 hours a day (on weekdays).

  The banking center provides sale of instant loan services, standing orders and credit cards as well as client preservation for non-bank credit cards.

  In 2016, the Hybrid Banking service would be extended to business clients at the banking center.
- **Mortgage center** – this center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on housing loans, receiving payments for existing loans and making arrangements and payments for loans in arrears. In 2015, the Hybrid Banking service was launched for mortgages at all Bank branches. In 2016, the Bank is expected to launch a service of correspondence with bankers (subject to arrangement of regulatory issues related to this matter).
- **Sales center** - intended to enhance selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of sales calls. In addition, the sales center handles sales of Mizrahi Tefahot credit cards, refinancing mortgages from other banks for Bank clients, sale of car loans and preventing churn.

  In 2016, the Bank is expected to intensify the mortgage refinancing operations for commercial clients, activities designed to prevent churn, reactivation of open but inactive accounts and will improve performance across its operations by better interfacing with Bank branches.
- **Investment center** – this center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight. The center also recruits new clients for savings, focusing on maximizing performance of campaigns. The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign securities.

  In 2016, the Bank expects to increase the number of recruited clients and to increase its savings business for the foreign currency affiliate and the foreign securities affiliate.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

On line, cell phone, notification box, IVR and fax services

- **On line service** – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available, 24 hours a day, on the Bank website and on the account management application.

  In 2015, the Bank launched a new, advanced website for capital market and investments, designed to offer Bank clients a trading experience among the most advanced in Israel. Along with this website, the Bank launched a dedicated application for trading on the capital market.

  In 2016, the Bank is expected to launch a new website for the mortgage segment and to expand this service to business clients and to international operations.
- **Notification Box service** – receiving Bank notifications of account activity in a personal notification box via the Bank's website. The Bank is expected to expand this service in 2016 to the account management application, as well.

- **Cell phone service** – disseminating banking and financial information through cell phones.
- **IVR service** – this service is provided to clients identified by a personal pass-code, providing them with computer-based information for common queries and transactions such as ordering a checkbook free of charge and receiving information by fax at a reduced cost. This service is available 24 hours a day.
- **PC service** – a system parallel to "Mizrahi on line", enabling direct connection to the Bank's computer, not through the Internet, and consequently – faster execution of transactions;
- Fax service – makes it possible to receive current banking information about the client account on a range of subjects, at the frequency specified by the customer.

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Self-service at branches

- **Service stations** - Mizrahi-Tefahot provides clients with service stations which allow them to conduct transactions and obtain information about accounts in the commercial sector and in the mortgage sector - using self-service, 24 hours a day - even when the branch is closed. Some of the service stations also offer immediate checkbook printing. In 2015, the Bank completed the replacement of service stations with new ones, offering a new user interface and check deposit service.
- **ATMs** - The Bank owns 181 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

Expansion of business operations

Management of deposit funds for overseas workers

On December 30, 2015, the Bank was informed it was awarded a tender issued by the State of Israel for management of deposit funds for foreign workers. The Bank is preparing to operate this deposit, with accrued balances as of the end of 2014 amounting to NIS 267 million, in conformity with terms and conditions stated in the agreement. For more information see chapter "Household segment" below.

Small business tender

On January 17, 2016, after the balance sheet date, the Ministry of Finance announced that the financial partnership between Bank Mizrahi Tefahot and other companies was selected as a winning bidder for the tender to provide loans to small and medium businesses, guaranteed by the State. For more information see chapter "Small business segment" below.

For more information about business results of the various operating segments, see chapter "Supervisory operating segments" below.

Significant developments in IT

IT and computers

IT services for Bank Mizrahi-Tefahot are provided by a wholly-owned subsidiary of the Bank - Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division"). The Technology Division works to develop sophisticated IT systems and to continuously improve the level of the Bank's technology equipment. The main site serving the Bank Group IT systems includes mainframe computers (hereinafter: "mainframe"), servers, data storage systems, communications equipment, printers and terminal equipment, all serving as development and operating infrastructure of the Technology Division (see below under section - "Infrastructure and operation"). The Disaster Recovery Site (DRP), located separately, includes a mainframe computer, servers, storage, communications and terminal equipment.

Located in the Bank's branches spread throughout the country is equipment serving as the operational infrastructure of the branches: branch server, end user stations, communications equipment, printers and other special equipment such as: counters providing information for clients, scanners and check readers.

Infrastructure and operations

The core banking systems are based on a mainframe platform. Most of the new projects are now being developed in the open environment of Windows and Linux platforms. In the open environment around the mainframes are close interfaces designed to transfer data between the two environments. The system operates on three mainframe computers and 2,000 servers. Most of the updating of the core systems is done nightly, updating the data base for the current activity that occurred during that day and the main books of the Bank, in order to provide the Bank with updated data in preparation for the next day's opening.

Data Center Relocation

In 2015, a project was completed to relocate the main Data Center facility from its previous location to the Bank site and the systems are in production at the new location, in conformity with Bank of Israel requirements.

Backup and disaster recovery

The Bank's disaster recovery policies are based on operating the main systems at a backup site within no more than 8 hours. A disaster recovery plan (DRP) was put together for this purpose.

In 2015, the backup site was relocated from its current location to a new location and a better protected site, which is compliant with Bank of Israel regulations. The relocation projected was completed in June 2015. Upon completion of this relocation, Bank Mizrahi Tefahot is no longer reliant on the international provider for its backup site. In 2015, the backup site was extended to another system, according to Bank priorities.

In order to ensure reliability of the DRP system and the disaster recovery capability, exercises are conducted together with the different divisions, in order to test the systems. In 2015, after relocation of the site, an extensive exercise was completed successfully.

Concurrently with update of the information at the backup site, critical information for core systems on the central computer are updated at a third site, located in Jerusalem - in order to provide information survivability in case of an extreme scenario where both the main site and the backup site are impacted simultaneously.

In addition to the backup system, other means provide physical equipment and infrastructure security, in both the main site and the backup site: identification of leaks, identification of flooding, preventing electrical surges, etc.

Computer services for Bank Yahav

In 2008, Bank Mizrahi-Tefahot acquired a controlling interest in Bank Yahav (50% of shares) from Bank HaPoalim Ltd. (hereinafter: "Bank HaPoalim").

As of the signing date of the financial statements, Bank Yahav receives computer and operating services from Bank HaPoalim. These services are provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor. In February 2014, the Bank Yahav Board of Directors approved contracting with an international company for creating a core banking system and receiving outsourced IT and operating services. The Company selected has an advanced solution for core banking services (BANCS), including provision of outsourced services to many banks and financial institutions throughout the world. In April 2014, Bank Yahav contracted with this company.

The Bank’s Board of Directors of Bank Yahav has approved the project work plan. The schedule for the new system going live is in 2016, as decided by the Bank Yahav Board of Directors and as approved by the Bank of Israel.

Bank Yahav is assisted by external consultants in management of this process and is aware that the international company contracted for delivery of this project has engaged the services of an Israeli consulting firm for the purpose of customizing its international system to work in Israel.

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For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about fixed assets and installations, see chapter "Corporate governance" on the financial statements.

Significant developments in marketing

The Bank's marketing operations and marketing strategy are derived from the Bank's strategic plan. Marketing channels used by the Bank to base the strategic plan, include: the nation-wide branch network, business centers, business hubs, the banking center, professional headquarters units and LIVE branches.

Business strategy and growth targets:

- Increase the Bank's share of the retail market, by expansion of the customer base, in particular growing the total number of customers in the Bank's household segment, while focusing on profitable target groups.
- Increase the Bank's share of small to medium business clients.
- Continue to lead the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers.
- Recruit new deposits and increase investment activities among existing clients.
- Maximize share of Bank clients while increasing total products per client.
- Expand to new operating segments - including the Arab segment, Jewish orthodox segment and retirees.
- Use the innovative LIVE offering to recruit relevant new clients and to improve service to existing clients.
- Expand operations of "The Card", the Mizrahi Tefahot client loyalty club, as part of the Group Power strategy.
- Expand operations of "Let us meet" to connect the Bank and the community - to the Arab and Jewish Orthodox segment as well.
- Regional marketing - activity in the vicinity of Bank branches.

Marketing strategy

Marketing strategy is based on business strategy and on growth targets, including continued leadership position of Mizrahi Tefahot as a differentiated and preferred brand based on service value - by providing warm, personal service and offering professional banking which handles "people's money".
As part of the overall world concept and Mizrahi Tefahot's DNA based on personal, human service, in late 2014 the Bank launched its Joy strategy, with the main concept being that clients are entitled to joy in their life - and their Bank.
Through real action in the field, diverse activities at branches, deployment of the Joy value across the organization and through the Bank's unique Hybrid service, which provides every client with access to a personal banker, the Bank has created advanced, human banking which sees the client and is focused on their needs.
This unique banking is also reflected in marketing communications, through advertising campaigns and adapting the media language for the Joy strategy.

Media activities appeal to the public at large, as well as to the aforementioned new segments.

In order to achieve the targets of the marketing campaign, the Bank operates the following marketing means and tools:

- **Brand** – Strengthen and differentiate the Mizrahi Tefahot brand and provide a unique value to clients in the competitive environment of today and tomorrow.
  The Mizrahi Tefahot brand is differentiated and outspoken, emphasizing the importance of close relationships between banker and client. Technological tools offered by the Bank also support this concept.

- **Client recruitment** – Focus on recruiting high-quality clients through general campaigns in mass media, local recruiting, internal recruiting, regular activities using various on line tools, marketing using databases and custom account offering, such as the "Executive Account" and the "Priority Account".
- **Client experience** – Develop the client experience for all Bank clients across all branches and sectors and contact potential clients for recruitment, emphasizing the Joy value and further investment in differentiation through the Bank's personal, human service. As part of the Bank commitment to personal, human service the teller stations remain unchanged in each and every branch, unlike action taken by competitors.
- Mortgages – continue to position Tefahot as mortgage experts, offering tools and services designed to improve the potential client experience. These include the "Tefahot GPS" service, an advanced website, leveraging relationships with real estate entities and providing added value in the digital world.
- **Deposits** – Development of new products appropriate for the market and for clients and continued use of simple language that is accessible to clients, launch the capital market website and the capital market application and put in place the infrastructure to maximize existing clients.
- **Mizrahi Tefahot LIVE** – A unique banking service, integrating the advantages of personal attention from a banker with the availability and accessibility advantages of direct banking. A personal banker for every client, backed by bankers from the branch, with support from actual branches providing backup nationwide. Communicating with the personal banker using diverse channels - by phone, email or SMS.
- **Small business** – Create strategy for small business at the Bank, continued operation and development of the Business College, together with the Israeli Management Center ("MIL") and dissemination of a quarterly on line magazine for business.
- **Segments**– Marketing and media campaign targeted at the Arab and Jewish Orthodox segments.
    - **Arab segment** – Open branches in Arab towns, intra-organizational activity, accompanied by a focused branding, marketing and advertising campaign, with development of a focused media language and creating a website in Arabic.
    - **Jewish Orthodox segment** – Comprehensive marketing activity for recruitment of high-quality clients in the Jewish Orthodox segment, creating a new media language aligned with the Joy strategy.
- **Client loyalty club** – Establish "The Card", Mizrahi Tefahot's credit card, as a unique client loyalty club which provides attractive offers in banking and non-banking domains, focusing on dialog with clients to understand their preferences and make promotions accessible through a new website.
- **Let us meet at Mizrahi-Tefahot** – Unique marketing activity to support the Bank's marketing strategy designed to achieve close ties with the community by reinforcing relationships with local residents. As part of "Let us meet at Mizrahi-Tefahot", the public is exposed to a wide range of fascinating content, delivered by leading speakers. These activities are open to the general public.
- **Existing clients** – Nurture and preserve current customers in the strategic target audience, and intensify activities with them. Activity among existing customers is based mainly on formulating unique offers with value and

developing a service policies that supports the positioning and needs of the customer and aids in improving customer satisfaction over time.

- **Focused marketing activity** – Smart use of information systems for focused marketing campaigns through various distribution channels and through the CRM system, constantly developing insights and tools for better knowledge of Bank clients and their needs.
- **Social network activity** – Monitor social network and blog activities and respond in real time by using advanced technological tools:
  - Understanding the clients – Real-time monitoring of consumer calls to assist in improvement of products and services offered to clients.
  - Active involvement in social media – Identify questions and inquiries from clients and provide a rapid, efficient response.
  - Useful insights for new product development.
  - Monitor and measure campaigns.

Market research conducted by the Bank reveals that these activities by the Bank have the following effects:

- Mizrahi Tefahot is perceived as the most personal and human bank in the Israeli banking system and with high satisfaction ratings.
- Mizrahi Tefahot has long benefited from an image perception advantage over the competition in the public's mind, which perceives the Bank as one with a positive, joyful atmosphere, as the most different bank in the banking system, as a bank where the bankers joyfully provide service to clients and as a bank perceived to most pamper their clients of all the banking system.
- Mizrahi Tefahot is the only bank (among the Top 5 banks) with a potential market share higher than the actual one - which means that a large number of potential clients wish to join the Bank.
- The Bank enjoys a growth momentum (a benchmarks which reflects the respondents' assessment of the chances of Bank growth and strengthening) which is the highest in the banking system.
- The Bank leads in client satisfaction, regularly over many years.
- Tefahot leads in client satisfaction in the mortgage sector - significantly higher than competitors. It also leads the market in all image-related dimensions: awareness, the first bank to be contacted and the No. 1 bank in the field - and this is the bank contacted by a majority of the relevant public for mortgage inquiries.

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Significant developments in human resources and administration

Developments concerning Bank officers

As from January 1, 2015, Attorney Racheli Friedman serves as Chief Legal Counsel to the Bank and as Manager, Legal Division.

Developments in labor relations

Payroll agreements of employees represented by the Bank's Employee Association

No salary agreement has been signed yet for the period 2005-2015 with the Employee Association (except with former Tefahot employees, for whom a salary agreement was signed for the period through March 31, 2005). In late 2015,an economic arbitration process was launched between the Bank and the employee union, to discuss the demands made by the employee union for these years. The Bank records, as necessary, appropriate provisions.

Technology Division

On March 2, 2015, a collective bargaining agreement was signed by management of Mizrahi Tefahot Technology Division Ltd., the company's employee representation and the labor union, with the following highlights:

- Termination of the labor dispute and strike called by the labor union on January 26, 2012 and elimination of all sanctions. This concluded all labor disputes at the Company.
- Arrangement of sub-contractor issue.
- Arrangement of trial period in tenure track.

Developments in logistics, administration and streamlining

- In 2015, the Bank continued the trend of streamlining and utilizing existing resources as follows:
  - Streamlining in space used and better deployment of the branch network.
  - The Bank put in place an arrangement for proactive load borrowing, by operating power generators at the Bank site during peak hours, in cooperation with Israel Electric Company.
  - Leveraging infrastructure through temporary leasing to third parties space used by the Bank as reserve for future growth.
- Making Bank branches accessible, in conformity with new accessibility regulations, at a faster pace than required by law. In some cases, decisions were made to relocate to other properties.

The activities and trends described above would continue in 2016.

The Bank also completed relocation of the Bank's main computer to the Bank site and construction of the backup facility for the Bank's main computer. For more information, see chapter "Significant projects" below.
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For more information about human resources at the Bank, organizational structure and senior officers of the Bank, see chapter "Corporate governance" on the financial statements.

Developments in international geographic deployment

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries, branches and affiliates in Israel and overseas. Bank Group international operations are primarily focused on private banking and on providing financial services to foreign residents, foreign trade finance, local credit and participation in syndicated loans. In addition, provision of banking services to Israeli clients who have activities outside of Israel. The Bank has affiliates in several countries, as stated below.

International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Division.

Details of the affiliates and their business are as follows:

Swiss subsidiary - UMB (Switzerland) Ltd. - specializes in private banking services and in extending loans for purchase of real estate in Israel. The subsidiary operates through one branch and is owned by the wholly-owned Bank holding company incorporated in Holland - UMOHC B.V. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch:** The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **London Branch:** The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's clients are local, Israeli and international clients.

International private banking branches in Israel - The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant clients. These branches provide full banking services to their clients, primarily private banking. The branches are under Israeli supervision and report to the Private Banking and International Operations sector.

Representative offices - The major activities of representative offices are marketing of Bank services and representation of the Bank overseas. The Bank operates representative offices in Mexico, Uruguay, Panama and Germany. The Bank has decided to close its representative offices in Panama.

Legislation and regulation

The overseas affiliates are subject, inter alia, to the laws of the country in which they operate, and to the regulation of the relevant authorities in that country, as set forth below:

Subsidiary in Switzerland - Federal Supervisory Authority of Switzerland FINMA.

Los Angeles branch - The State of California Financial Institution Department, the Federal Deposit Insurance Corporation (FDICFDIC) and the Federal Reserve Bank. In accordance with regulations of the Federal Deposit Insurance Corporation (FDIC), the Los Angeles Branch must hold "eligible assets", as defined in the regulations, at a ratio of 106% to its total liabilities. According to these regulations, a deposit in a bank that did not waive the set off agreement vis-à-vis the depositor does not meet the definition of "eligible assets". Therefore, the Los Angeles Branch has limited possibilities for depositing in the Bank in Israel. Furthermore, branch operations are subject to limitations of the US Bank Holding Company Act of 1956.

London branch – subject to two authorities: FCA (Financial Conduct Authority) and PRA (Prudential Regulation Authority).

Mexico representative office - Comision Nacional Bancaria y de Valores (banking regulators).

Uruguay representative office - Banking regulation - Banco Central Del Uruguay.

Germany representative office - Financial Supervisory Authority - (BaFin)

Panama representative office – banking supervision - Superintendencia de Bancos.

Business goals and strategy

Bank affiliates overseas compete with local banks in their countries, with international banks and with affiliates of Israeli banks overseas. Competition is focused on the level of service and range of services provided to clients. Each international operations affiliate has a unique target audience. Critical success factors are based on providing global service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive global market experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients and efforts to locate and recruit new clients on a day-to-day basis.

The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risk factors:

- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risk (credit and market risk) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate.

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For more information see chapters "Risk overview" and "Supervisory operating segments" below as well as the detailed Risk Management Report on the Bank website.

Significant projects

The Bank Group, through the Technology Division, is pursuing multiple projects requiring major IT investment, which are in various development and deployment stages. These projects may be grouped as follows:

- Projects under development.
- Projects completed in 2015.
- Projects conducted in recent years and handled as part of the regular work plan.
- Development of IT infrastructure.

Projects under development

- Continued development of the Hybrid Banking project, which was launched in 2011, including installation of an IP telephony system to replace the old call center systems and to link business systems at the call center and branches. In 2015, this concept was extended to the commercial segment as well.
- Mortgage system - Development of the mortgage simulator continues and should be completed in 2016.

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Projects completed in 2015

- A new website and cellular application were created, based on advanced infrastructure, for the capital market.
- Extensive functionality was added to the website, including: Standing orders, presentation of credit cards etc.
- Check deposit using the cell phone.

Bank ID – The Bank has developed all capabilities and required reports for compliance with Bank of Israel requirements on this matter.

- In 2015, the Bank completed development with regard to the project for disconnecting Bank Yahav from Bank HaPoalim's system. For more information see chapter "Significant developments in IT" above.
- The software to support marketing of Leumi Card credit cards by the Bank has been completed.

Projects conducted in recent years and handled as part of the regular work plan

- Trading room operation system - In 2015, the Bank replaced the system used for operating the trading room, so as to adapt the computer system to the range of transactions and scope of operations.
- In 2015, the Bank expanded mortgage insurance system within the mortgage system and deployed various regulatory requirements.
- Dedicated system for management of inquiries from the public. The system allows for improved, computer-based monitoring of how such inquiries are handled through resolution.
  - Bank website – the existing website was replaced by a new one, based on advanced infrastructure.

Development of IT infrastructure

- Investment in infrastructure development forms an important basis, allowing the Bank to support expansion of its business through development of new, state-of-the-art banking systems. This includes, inter alia, mainframe computer upgrade, server farm expansion and upgrade, storage system customization, communication system expansion and workstation replacement at branches.
- In 2015, The Bank completed the upgrade of all workstations at headquarters and branches to a more advanced system.
- The Bank created a system for monitoring and avoiding information leaks through email at the Bank.

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Other matters

Significant Agreements

A. Employment agreements signed with the Employee Council, the Manager and Authorized Signatory Association and the Technology Division Employee Committee. For more information see section "Human Resources" in the Corporate Governance chapter on the financial statements.

B. Indemnification letters. For more information see Note 26.C.(4-9) to the financial statements.

C. Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL, for joint issue of Visa, MasterCard and Diners Club debit cards, including Bank-branded cards, to be distributed by the Bank to its clients. For more information see Note 26.C.13 to the financial statements.

D. Bank Yahav was awarded a tender for budget loans to Government employees. For details, see chapter "Major investees" above.

E. Bank Yahav contracting with an international company for creating a core banking system and receiving outsourced services for such system. For more information see chapter "Significant developments in IT" above.

F. In late 2015, the Bank started cooperation with Leumi Card on marketing of Leumi Card credit cards to Bank clients.

G. Directed loans to Ministry of Construction and Housing eligible borrowers. For more information see chapter "Household segment" above.

H. Small business tender. For more information see chapter "Small business segment" below.

I. Tender for management of deposit funds for overseas workers. For more information see chapter "Household segment" above.

Social involvement and charitable donation

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement and to support all facets of the community's needs.

The Bank is primarily focused on 2 specific social areas, to which it funnels most of the charitable donation and volunteer activity by the Bank and its employees:

- Promoting under-privileged children and youth
- Supporting NGOs and businesses who promote social causes and employ persons with special needs

Some 125 Bank branches have connections to different social organizations and institutions working on behalf of disadvantaged children and youth at risk, in communities in which branches are located. “Adoption” of these organizations is reflected by volunteer work by branch and headquarters staff and providing assistance to the populations they treat, and providing financial assistance – Bank donations for purchase of products to benefit the children and youth. In addition, the Bank operates a variety of ventures to benefit populations in need – financial education kits for youngsters, empowerment of youngsters, activities to benefit sick children, scholarships for students in financial need, fair for sale of products by NGOs etc. These activities are carried out with involvement of Bank employees, their families and even Bank clients. In 2015, the Bank expanded its "Let us meet at Mizrahi-Tefahot" program, in which lectures and activities on various topics were offered to the general public at Bank branches - free of charge.

In 2015, the Bank Group allocated NIS 8.5 million to social involvement and charitable donation, compared to NIS 8.3 million last year. In addition, Bank employees and managers invested work hours valued at NIS 4.4 million (compared to NIS 4.3 million last year) in community work as part of the various activities.

In total in 2015, the Bank Group invested in community social activities NIS 12.9 million, compared to NIS 12.6 million in 2014.

For more information about social involvement and charitable donation, see the Corporate Governance Report on the Bank website:

www.mizrahi-tefahot.co.il >> information about Mizrahi-Tefahot >> investor relations >> financial statements

Changes in legal structure and incorporation of the Bank

In 2015 there was no change to legal structure and incorporation of the Bank

Explanation and analysis of results and business standing

This chapter includes a description of trends, phenomenons, developments and material changes with regard to results and business standing, including analysis of revenues, expenses and profit. It also describes in detail the Bank's operating segments, holdings in major investees and their operating results.

Trends, phenomenons and material changes

Significant Events in the Bank Group's Business

Issue of contingent subordinated notes (CoCo) with loss-absorption provisions.

On December 30, 2015, the Bank issued for the first time contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 417 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

In January 2016, after the balance sheet date, the Bank raised a further NIS 183 million.

Note that according to the Bank's capital planning forecast, the issue of contingent subordinated notes should fulfill the Bank's need for supervisory capital at least through 2017.

Sale of assets and liabilities in mortgage portfolio

On December 31, 2015, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 759 million. The loan portfolio consists of housing loans extended by the Bank in 2013. The housing loan sold includes loans with LTV ratios ranging between 50%-60%.

The remainder of this loan portfolio is retained by the Bank, so that rights of the buyer and those of the Bank shall have equal precedence (*pari passu*).

According to a management agreement signed by the parties, the Bank will manage and operate, on behalf of the buyer, the portion of the loan portfolio acquired - in the same manner and based on the same rules used by the Bank to manage and operate its own housing loans, including the portion of the loan portfolio retained by the Bank.

The General Environment and Effect of External Factors on the Bank Group

Developments in Israel's Economy in 2015

Real Developments

Macro-economic developments in 2015 indicate moderate growth in economic activity.

According to preliminary estimates for the second half of 2015, published by the Central Bureau of Statistics, Israeli GDP growth in 2015 was 2.6%, similar to last year and compared to 3.3% growth in 2013. Growth was negatively impacted by lower imports of goods and services and investment in the economy. Private consumption grew at a high rate, despite a decrease in consumption of durable goods and semi-durable goods.

Exports of goods (original USD data, excluding ships, airplanes and diamonds) decreased in 2015 by 4.1%. This happened given the cumulative revaluation of the NIS against the effective nominal exchange rate during the year and given continued moderate growth in global trade. Imports of goods (original USD data, excluding ships, airplanes, diamonds and energy materials) decreased in 2015 by 4.7%. This was due to decrease across all categories of goods (consumer goods, raw materials and investment products). Given these developments, the overall trade deficit in 2015 amounted to USD 7.9 billion, compared to USD 13.8 billion last year - a decrease of 43.0%.

In the first eleven months of 2015, the economic sector turnover index rose by 4.4%, primarily due to the effect of the construction sector turnover index and the retail and wholesale commerce sectors. The industrial output index increased in that period by 1.9%, while high-tech output index declined by 1.9%. The Consumer Confidence Index is still in negative territory, but showed some improvement during the year. The purchasing manager index showed expanding activity - but only late in the year.

In 2015, the average unemployment rate was at 5.3%, compared to 5.9% in the corresponding period last year. In this period, the average participation in the labor force was at 64.1%, similar to the average in the corresponding period last year, which was 64.2%.

Inflation and exchange rates

In 2015, the Consumer Price Index decreased by 1.0%, following a decrease of 0.2% last year. The lower CPI was primarily due to lower prices of transportation and communication and prices of home maintenance. The decrease was partially offset by higher prices of fruits and vegetables. Note that reduction of the VAT rate and other factors resulted in a 0.6% decrease in the CPI overall.

Below is information about official exchange rates and changes there to:

	December 31, 2015	December 31, 2014	Change in %
Exchange rate of:			
USD (in NIS)	3.902	3.889	0.3
EUR (in NIS)	4.247	4.725	(10.1)

On February 18, 2016, the EUR/NIS exchange rate was 4.337 - a 2.1% devaluation since December 31, 2015. The USD/NIS exchange rate on this date was 3.902 - similar to December 31, 2015.
In support of the exchange rate, the Bank of Israel purchased in 2015 foreign currency valued at USD 5.5 million, after purchasing USD 7.0 billion in all of 2014 (about half of the purchasing in each of these periods was designed to offset the effect on exchange rates of gas production from the Tamar reservoir).

Monetary and fiscal policy

In 2015, the Bank of Israel lowered its interest rate once, from 0.25% at the end of 2014 to 0.10% in March 2015 - given the stronger NIS against the currency basket, more moderate inflationary expectations and continuing expansive monetary policy in major world economies.
In 2015, the government budget recorded a NIS 24.5 billion cumulative deficit, compared to a NIS 29.9 billion cumulative deficit last year. The deficit rate in 2015 is 2.2%, compared to 2.8% for all of 2014. Tax revenues increased in this period by 5.3% over the corresponding period last year, while Government expenditure increased by 4.9% in the same period.
Note that tax collection in 2015 was NIS 3.6 billion higher than early forecasts by the Ministry of Finance. Consequently, the Finance Minister decided to reduce the VAT rate by one percentage point, to 17% (as from October 2015) and reduced the corporate tax rate by 1.5 percentage points, to 25% (as from January 1, 2016).

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2015 demand for new apartments (apartments sold and apartments constructed not for sale) was 50,520 apartments, an increase of 22.3% over the previous year and 1.3% over 2013. This was due, *inter alia*, to the decision to increase the purchase tax terminated the "0% VAT" program. In this period, all regions saw higher demand for apartments, with the most significant increase over the corresponding period last year recorded in the Southern region (49.9%) and in the Haifa region (38.4%). Based on the average pace of sales in the six months ended December 2015, the housing inventory would account for 8.4 months' sales - lower than inventory in December 2014 (10.8 months) and in December 2013 (12.1 months). In 2015, housing loans given to the public amounted to NIS 65.0 billion, compared to NIS 52.0 billion in the corresponding period last year - an increase of 25.0%. According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in 2015 by 8.0%, compared to 6.0% in the corresponding period last year.

Capital market

Early in 2015, the capital market rallied, but in the third quarter the trend was reversed, with significant declines in most equity indices, due to concern of lower global growth in future - and in particular growth in China. Slight increases in the fourth quarter resulted in 2015 concluding with low positive returns on most equity indices in Israel. Negative data on growth in China and further declines in oil prices continue to negatively impact on equity markets in Israel and around the world in early 2016.

In 2016 to date, the leading equity benchmarks declined, both in Israel and overseas. Through February 16, 2016, the Tel Aviv 25 Index dropped by 7.9% and the Tel Aviv 100 Index dropped by 8.1%. These declines are against the backdrop of continued decrease in oil prices. The price per barrel of Brent oil decreased by 9.6% year to date. This is also against the backdrop of concerns about the bank crisis in Europe and the growth rate of developing nations.

Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were higher in 2015 by 4.4% and 2.0%, respectively, compared to increase of 10.2% and 6.7% in 2014. The Tel Aviv 75 Index was down 5.4%, following a decrease of 10.2% in 2014. The Real Estate 15 Index was slightly higher by 1.1%, compared to an increase of 0.9% in 2014. The Yeter 50 Index was up by 21.2%, following a decrease of 11.5% in the corresponding period last year. Financials were also higher; the Banking and Financials 15 indices were up by 7.3% and 4.0%, respectively following decreases of 5.6% and 7.7% in 2014.

The average daily trading volume in shares and convertible securities in 2015 was NIS 1.45 billion, compared to NIS 1.21 billion in 2014. In the final quarter of 2014, trading volumes increased and the average daily trading volume was NIS 1.5 billion. compared to NIS 1.4 billion in the final quarter of 2014.

Share issuance (including capital raised overseas) increased y, amounting to NIS 38.9 billion in 2014, compared to NIS 14.9 billion in 2014.

Debenture market - the Government debenture market was higher in 2015, due to lower interest and inflation rates, lower inflationary expectations and low yield environments overseas. The upward trend changed in mid-year, with most debenture indices decreasing in the final quarter. Long-term debentures were down more moderately than medium-term debentures. Corporate debenture benchmarks decreased less than government debentures.

The General Debenture Index was up by 1.8% in 2015, after an increase by 4.7% in 2014. The CPI-Linked Government Debenture Index decreased in 2015 by 0.2%, after rising by 5.8% in 2014. The Non-Linked Debenture Index was up by 2.8%, following an increase of 7.2% in 2014. The major Tel Bond indices were mixed for the year, with a negative trend - similar to CPI-linked government debentures. In 2015, the Tel Bond 20 Index was down by 1.1%, compared to an increase of 1.0% in 2011, and the Tel Bond 40 Index rose in 2015 by 0.2%, compared to an increase of 0.6% in 2014.

Increased concern about potential future growth impacted corporate debentures and was reflected in wider yield spreads over government debentures. Debentures rated AA traded at the end of 2015 at a yield spread of 1.11 basis points, compared to 0.80 basis points at the end of 2014 - after recording even higher spreads during the year. Debentures rated A traded at the end of 2015 at a yield spread of 2.22 basis points, compared to 2.61 basis points at the end of 2014 - after recording even higher spreads during the year.

In total, the business sector raised from the public and from institutional investors by debenture issuance some NIS 57.0 billion in 2015, similar to NIS 57.7 billion raised in 2014. The average daily trading volume in debentures in 2015 amounted to NIS 4.2 billion, similar to 2014.

Global economy

GDP growth in the US remained moderate in 2015. This was due to a slow-down in global economic activity, due to the stronger USD vs. major world currencies and following a continued decline in energy prices. US GDP grew by 4.0% in 2015, similar to the previous year and compared to 1.5% in 2013. Growth was positively affected by growth in private consumption, along with a more moderate increase in exports of goods and services, in economic investments and in public consumption. The growth pace in industrial output was more moderate this year; in the 12 months ended in December, industrial output decreased by 1.8%. The purchasing manager index in industrial sectors was also lower this year, reaching 48.2 points in December - a drop indicating a decline in economic activity. Conversely, data published in recent months reflect a improvement in the US labor market. The participation rate increased slightly from the low in the third quarter of this year; the number of new jobs created was higher than expected; and the pace of salary increase was higher. The core inflation rate in December 2015, in terms of the trailing twelve months, excluding the effect of lower energy and food prices, was 2.1%. Against the backdrop of positive labor market data in the fourth quarter of this year, the Federal Reserve raised its interest rate in December by 0.25 percentage point, to 0.25%-0.5%.

The Euro Zone economy moderately improved in 2015, with GDP growth for this year at 1.5%, compared to 0.9% growth in the previous year and (-0.3%) in 2013. The retail output and the industrial output benchmarks improved slightly. Expectation surveys improved to a greater extent, including the purchasing manager index. The core inflation rate, in terms of the trailing 12 months, reached 0.9% in December 2015, compared to 0.7% in December 2014. The unemployment rate continued to decline this year, although at a moderate pace and it is still at a high level of 10.4% as of December 2015, compared to 11.4% at the end of 2014. The recovery in the Euro Zone economy was against the backdrop of the launch of a quantitative expansion program since the start of this year, valued at EUR 60 billion per month for 18 months, primarily including purchase of debentures issued by Euro Zone countries and given the sharp devaluation of the EUR vs. the USD. Following slower economic recovery in the third quarter of this year, the ECB announced it was lowering the interest rate for deposits, from (-0.2%) to (-0.3%). The ECB also extended the quantitative expansion program from September 2016 to March 2017 and also expanded this program, so that now the ECB may also purchase debentures issued by counties and local authorities, and not only government-issued debentures.

China's GDP grew in the fourth quarter of 2015 at an annualized 6.8% after growing at 6.9% in the previous quarter and growing at 7.2% in the corresponding period last year. In 2015, China's economy grew by 6.9%, compared to 7.3% growth last year. Note that this is China's lowest growth rate in the past 25 years. This was mostly due to a slowdown in exports and further weakness in industrial output growth. Core inflation in terms of the trailing 12 months, rose slightly to 1.5% in December 2015, compared to 1.3% in 2014. Given lukewarm economic data reported in China's economy, interest rates in China were gradually lowered from 5.6% at the end of 2014 to a new low of 4.35% in October 2015.

The Dow Jones Index decreased by 3.0% in 2015, compared to 8.3% increase in 2014. The S&P 500 Index decreased in 2015 by 1.5%, compared to 12.6% increase in 2014. The NASDAQ 100 Index rose in 2015 by 7.5%, compared to 18.9% in 2014.

The German DAX Index and the French CAC Index rose in 2015 by 3.5% and 8.5%, respectively - after a 2.65% increase and 0.5% decrease in 2014. The UK FTSE 100 index continued to decrease in 2015 by 4.9%, after decreasing by 2.7% in 2014. In Japan, the Nikkei Index was up by 7.8% in 2015, after a similar increase in 2014.

In 2016 year-to-date, global equity markets continued to decline, with the Dow Jones index lower by 5.4%. Through February 16, 2016, the S&P 500 and NASDAQ 100 benchmarks dropped by 8.8% and 12.5%, respectively. Leading benchmarks in the Euro Zone dropped by 12% and in China - by 20%.

Major trends in banking

The banking system has been facing several key challenges in recent years:

- Moderate economic activity, with a low interest rate and inflation environment over time, which impairs bank profitability.
- More moderate global growth, impacted *inter alia*, by weaker emerging markets, results in a trend of transition from global multi-national banking to local banking.
- Rapid development of digital banking based on Internet platforms and increased use of mobile devices. The increased digital trend allows for entry of technology companies into the financial brokerage arena (P2P and crowd financing companies), due to the advantages of the on line platform: rapid information flow, rapid co-operation between individuals and low transaction cost.
- Competition in the household segment and in the small and medium business segments has increased in recent years, given the focus of the banking system on these segments, along with increased new entries from institutional investors and credit card companies. These effects are accompanied by increased regulation in the following areas:

Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors - credit associations and co-operative banks. Further to the trend of expanding regulatory directives on June 3, 2015 the Finance Minister officially announced the appointment of the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee") (see details below).

- Streamlining steps taken in the banking system, as reflected by several moves: Launch of early retirement programs for employees, merger of subsidiaries into parent banks, reduced branches and real estate, computer-based teller services and increased use of digital banking.
- Stricter requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. On the other hand, the Supervisor of Banks allowed Israeli banks to issue debentures with a loss-absorption provision, as is common around the world (contingent conversion debentures - CoCo). Such debentures contribute to stability of the issuing bank and to reduced support required from the Government should the bank be in trouble.
- Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.
- Increased consumer awareness due, *inter alia*, to increased use of social networks and to technology which allows for easier access to information and to comparison of financial alternatives. Consequently, the banking world is becoming focused on identifying client needs.

Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee")

On December 14, 2015, the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee") (hereinafter: "the Committee") issued its interim report. The objective of this Committee is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer power). The Committee's vision of competition is defined by creating a more efficient market along with cost cutting for the economy, simplified competition for consumers and more diverse sources of credit and financial services offered to consumers. This would be achieved by taking the following steps:

- Adding new players - supervised non-bank entities - and creating conditions which would allow them to compete with banks, with an emphasis on information and the capacity to raise capital needed for their operations. The Committee recommended separating control and ownership of major banks from credit card companies. This is because the Committee regards credit card companies as the most significant potential for increased competition in the retail segment, due to their having information and familiarity with clients.
- Allowing consumers in Israel to select and receive financial services from all financial institutions with no need to transfer their checking account. This would be done by establishing the technology infrastructure which would allow financial transactions to be made "at the click of a button", even through competing financial institutions, regardless of where the checking account is managed.

- Putting in place appropriate regulation applicable to non-bank players, for protection from relevant risks, including: cyber risk, AML and misleading consumers.
- The Committee stated that in future, it may discuss the following:

  - Rules for easier account opening with financial institutions.
  - Rules for review of cooperations between financial institutions with regard to establishing a closed system for fund transfers.
  - Distribution of insurance products by banks.

The interim report was accompanied by documents which show that some Committee members had reservations about some of the recommendations. Upon issuing the interim report, the Committee invited the Public to present their position and claims about the interim findings, by February 7, 2016. After hearing the positions of the Public, the Committee will submit its final recommendations.

It is currently not feasible to estimate the impact of the interim recommendations on the Bank's financial statements.

Risk events

In 2015, there were no material loss events nor any events with a potential for material loss.

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the Detailed Risk Management Report on the Bank website

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The chapter "Risks Overview" below includes a mapping of various risk factors and their potential impact on the Bank Group. Risk factors whose potential impact on the Bank Group was not classified as Low are: Credit risk, interest rate risk, inflation risk, liquidity risk, information security and cyber risk, legal risk, compliance and regulatory risk, cross-border risk and AML risk.

During the year, the Bank monitored the development of its risks profile under normal and stress conditions, using a range of stress tests specified at the Bank. The risk profile is monitored by reviewing a range of risks benchmarks in segments relevant for Bank operations and their remoteness to the risk appetite specified by the Board of Directors. The impact of the aforementioned risk factors is:

Credit risk	– Low-medium
Interest rate risk	– Low-medium
Inflation risk	– Intermediate
Liquidity risk	– Intermediate
Cyber and information security	– Intermediate
Legal risk	– Low-medium
Compliance and regulatory risk	– Intermediate
Cross-border risk	– Intermediate
Anti-money laundering risk	– Low-medium

Credit risk – The risk profile in the Bank's mortgage portfolio has been decreasing over the past year - a continued trend due to continued decrease in risk factors relevant to this portfolio: LTV, repayment ratio, default rates, probability of default (PD) etc. The Bank has a range of scenarios designed to challenge the potential impact to the mortgage portfolio under extreme macro-economic conditions, which include a drop in housing prices, an increase in unemployment and higher interest rates. These scenarios indicate that the potential damage to the portfolio as compared to the Bank's core capital is low. During the year, the Bank expanded its retail operations, with the risk level monitored using traditional benchmarks. Concurrently, the Bank completed the development of advanced models in this segment, in order to support underwriting operations. The new benchmarks, like the old ones, indicate that the risk level of this portfolio is low and stable. During the year there was no material change to the Bank's business credit risk profile, which remained at a low-medium level. During the year, the Bank reduced the credit concentration in its business portfolio, especially with regard to exposure to large borrowers.

Interest and inflation risks – During the year, the Bank maintained a low-medium risk profile for these risks, in view of the low interest and inflation environment and the potential for change in the interest rate trend. The framework for handling these risks at the Bank was reviewed and found to be in line with potential changes in interest rates, should they occur. At the end of 2015, the interest rate risk profile benchmarks indicated a low level.

Liquidity risk – In 2015, the Bank completed preparations for implementation of Bank of Israel directives on liquidity risk management; as from April 1, 2015 the Bank implements the Bank of Israel directive on liquidity coverage ratio (for more information see chapter "Risk review" below and the Detailed Risk Management Report on the Bank website).
This year, the Bank follows an upward trajectory of liquidity ratios, higher than the restrictions imposed by the Bank’s Board of Directors - which are higher than Bank of Israel requirements. This year, the Bank launched a range of benchmarks used to monitor concentration of depositors; each of these benchmarks improved in 2015. All this was part of the overall comprehensive preparation by the Bank to address this risk, including special forums and diverse scenarios.

Operational risk – Action taken by the Bank to implement principles for addressing operational risk (including information security and cyber risk), training and surveys, designed to map the major risks associated with Bank operations and to take action in order to mitigate them. The Bank's stress tests with regard to operational risk (including information security and cyber risk), indicate that potential loss due to this risk, as percentage of the Bank's core capital, is low. The Bank is aware of the risk potential inherent in severe events such as earthquake, pandemic or war; therefore, the Bank has defined detailed scenarios which set an outline for development of such events, in order to review their potential impact on the Bank. In each of these scenarios, the Bank found that i the damage level was relatively low. The Bank is aware of the importance of business continuity; therefore, this year the Bank continued taking action required to upgrade and exercise this framework.

Legal risk – The risk profile did not materially change during the past year and its level was determined to be low-medium.

Compliance and regulatory risk – The compliance and regulatory risk profile of the Bank has been decreasing over the past year, due to many significant actions taken by the Bank and against the backdrop of stricter regulation of Bank operations. These actions include intensive deployment of a compliance culture at Bank branches, other business units and at headquarter units through, *inter alia*, training delivery using various means and engaging compliance entities for professional support and control as part of the first line, including at Bank branches, regions and headquarter units. In addition, the involvement of the Compliance Officer in all processes at the Bank was increased and control activity was significantly expanded - both at the Bank in Israel and at overseas Bank subsidiaries and affiliates.

Cross-border risk – This year, the Bank started monitoring cross-border and FATCA (Foreign Account Tax Compliance Act) risk, which is relatively high due to stricter regulation in this field world-wide and increased proactive steps taken by various regulators around the world. Therefore, the Bank has put in place a framework for handling such risk, including setting a quantitative and qualitative risk appetite and constant monitoring of the risk profile, *inter alia*, by implementation of a campaign to have all clients affiliated with foreign countries sign certifications, whereby they are in compliance with their obligations towards tax authorities wherever relevant and waivers of confidentiality with respect to foreign authorities. The Bank also maps the countries relevant to its operations, creating Do and Don't rules with regard to various business activities and pools activities of foreign residents in specialized branches to be trained in these rules. The Bank also delivers training to entities operating in areas exposed to cross-border risk.

AML risk – The Bank's AML risk profile has been decreasing over the past year, primarily due to deployment of strict control processes, extensive training and improved compliance culture. *Inter alia*, compliance controllers in the different regions, as part of their regular control activity, apply specific controls to various aspects of implementation of AML and terror financing procedures.

As noted above, the Bank constantly monitors its risk profile using a range of tools, including: The quarterly Risk Exposure Report, which reviews a host of benchmarks specified for the various risks and their closeness to the risk appetite, as specified in Bank policy documents, the Bank's annual ICAAR document filed at the end of 2015 and, in particular, the capital planning process included there, which reviews the capital required by the Bank in order to achieve the targets in the Bank's strategic plan. Concurrently, the Bank conducts diverse stress tests at different severity levels and a self-assessment process, in which risk managers and controllers conduct a subjective, qualitative review of the various risk profiles at the Bank, taking into account the expected direction of risk evolution given changes in macro-economic conditions, in the Bank's business targets, in regulatory assumptions and in the work plans.

Based on this range of tools, Bank management and the Board of Directors determined that the Bank's risk profile in 2015 is similar to the risk profile in 2014 and that most of the risks are at a low level. The Bank's capital planning process has determined that the Bank has sufficient capital to achieve its business targets, even when challenged by stress tests, including the Bank of Israel uniform scenario - a specific scenario for changes in macro-economic conditions.

Assessment of the effect of the aforementioned risk factors takes into account the risk associated with the US DOJ inquiry as well as all action taken by the Bank to defend its position with regard to the inquiry. For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of a derivative claim and motion for approval of a class action lawsuit on this matter, see Notes 26.C.12 and 26.C.11(B-C) to the financial statements.

Independent Auditors' reports

The Independent Auditor, in their review, has drawn attention to Note 26.C.11.(A-G) to the financial statements, with regard to claims filed against the Bank and a subsidiary thereof, including claims accompanied by motions for class action status as well as to the inquiry by the US Department of Justice concerning Bank Group business with its US clients.

Events after the date of the financial statements

There were no material events after the date of the financial statements.

Changes to critical accounting policies and to critical accounting estimates

Liabilities with respect to employee rights

On April 9, 2014, the Supervisor of Banks issued a circular concerning adoption of US GAAP with regard to employee rights. These principles were codified in the following codification sections (hereinafter: “the directive”):

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

In addition to application of these principles, the circular includes specific directives for implementation in Israel, as follows:

The discount rate used to calculate reserves and to cover employee rights would be based on market yield of government debentures in Israel.

According to the circular, the principle previously set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation - should be maintained. It is expected that in cases where the Bank expects payment of benefits beyond contractual terms, they would adjust these to situations where a material obligation exists.

Banking corporations should classify employee benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employee benefits fall into the following categories:

- Benefits prior to termination
- Benefits post termination and prior to retirement
- Post-retirement benefits

The circular stipulated that amendments to Public Reporting Regulations would apply as from January 1, 2015 and upon initial application, the Bank would retroactively revise the comparative figures for periods starting on or after January 1, 2013.

On January 11, 2015, the Supervisor of Banks issued a circular concerning employee rights - discount rate, disclosure format and transition provisions for initial application. Later on, on January 12, 2015 the Supervisor issued a Q&A file on this topic. The circular notes that the Bank of Israel has concluded that in Israel there was no deep market in highly rated corporate debentures. Accordingly, the discount rate for employee benefits is to be calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA - and yields to maturity, for the same term to maturity, for US government debentures, all as of the reporting date.

Furthermore, the circular revises the disclosure requirements with regard to employee rights and with regard to share-based payments, in conformity with generally accepted accounting principles for US banks.

The Bank applies the new directives as from January 1, 2015.

Highlights of changes in policies with regard to employee rights

Post-retirement benefits - pension, severance pay and other benefits - defined-benefit programs:

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly reviews the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' regulations with regard to internal controls over financial reporting with regard to employee rights, including with regard to review of an "essential commitment" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation - paid leave and sick leave:

- The liability with respect to paid leave is measured on a current basis, without accounting for any discount rates or actuarial assumptions.
- The Bank does not accrue a liability with respect to sick leave utilized during current service.

Share-based payment transactions:

The Bank recognizes expenses with respect to share-based payments made to Bank employees.

Equity awards are measured at fair value on the award date and unlike international standards - a current tax benefit is accrued with respect to this expense. Upon realization of the award, the final tax benefit is calculated. The excess final tax benefit is charged to capital reserve from benefit from share-based payment transactions. Any final tax benefit which is lower than the accrued tax benefit would be offset against accrued tax benefits in the capital reserve down to zero and the balance is charged to the Statement of Profit and Loss upon realization.

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates, it was stipulated:

The actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) - and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") would be included under Accumulated Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Accumulated Other Comprehensive Income and would decrease the loss balance recorded as noted above - down to zero.
Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.
Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

The effect of the initial application on other employee benefits, in which all changes are regularly charged to Profit and Loss, would be charged to retained earnings.

For more information see Note 1.C.1 to the financial statements.

Group provision for credit losses

On January 19, 2015, the Supervisor of Banks issued a circular updating the Public Reporting Regulations with regard to group-based provision for credit extended to individuals. According to the circular, when setting the provision for credit losses, the Bank must account for past losses - to be calculate based on average past losses for the past five years - and must also ensure that the rate of qualitative adjustments (impact of environmental factors) to group-based provision for credit losses with respect to consumer credit would be no less than 0.75% of the non-impaired consumer credit balance. Guidelines in this circular would be applied prospectively.

As stipulated in the circular, the Bank adjusted the group provision for 2014 with respect to credit to individuals. After the qualitative adjustment has been applied, as per the guidelines, the total qualitative adjustment at the Bank is at 0.75%.

As required by the Bank of Israel, in 2015 the Bank developed a methodology for calculation of the group provision, which takes into account adjustments for relevant environmental factors. For more information see Note 1.D.6 to the financial statements.

Material developments in revenues, expenses and other comprehensive income

Summary of business results - profit and profitability

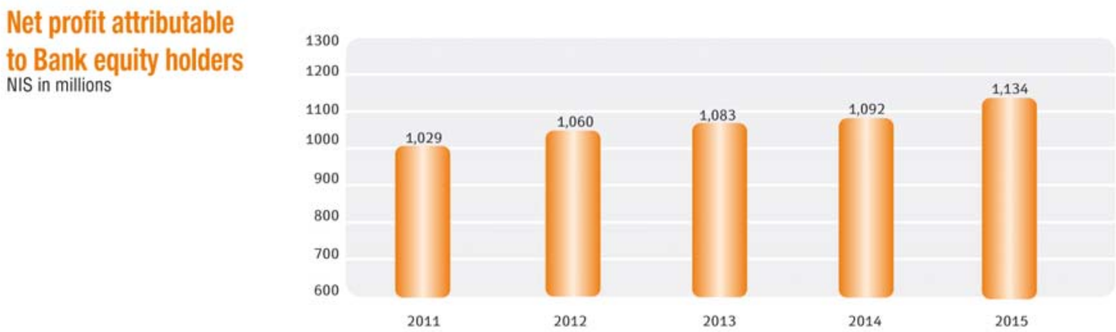
Net profit for the Group in 2015 amounted to NIS 1,134 million, compared to NIS 1,092 million[1] in the previous year – an increase of 3.8%. This profit reflects a 10.0% return on equity, compared to 10.6%[1] in the previous year, given a NIS 1.0 billion increase in the Bank's capital base - an increase of 9.7%. Total shareholder equity as of December 31, 2015 amounted to NIS 11.8 billion, compared to NIS 10.8 billion in the corresponding period last year.

Group net profit in the fourth quarter of 2015 amounted to NIS 240 million, compared to NIS 203 million[1] in the corresponding period last year – an increase of 18.2%. This reflects a return on equity at 8.4%, compared to 7.8%[1] in the corresponding period last year.

Net loans to the public for the Group as of December 31, 2015 amounted to NIS 159.2 billion, compared to NIS 147.6 billion in the corresponding period last year - an increase of NIS 11.6 billion or (7.9%).

Deposits from the public for the Group as of December 31, 2015 amounted to NIS 162.4 billion, compared to NIS 152.4 billion in the corresponding period last year - an increase of NIS 10.0 billion or (6.6%).

Balance sheet total for the Bank as of December 31, 2015 amounted to NIS 209.2 billion, compared to NIS 198.5 billion[1] in the corresponding period last year - an increase of NIS 10.7 billion or (5.4%).



(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

The following key factors affected Group profit in 2015, compared to 2014:

- Financing revenues from current operations (interest revenues, net and non-interest financing revenues) increased in 2015 by NIS 347 million. An increase by 10.0% compared to 2014 See also the analysis of evolution of financing revenues, below.
- Commissions and other revenues increased in 2015 by 4.2% compared to 2014. The increase in commissions and other revenues is presented due to continued growth in business volume and despite the negative effect of various regulatory directives. Other revenues include the operating results in conjunction with asset reorganization and improvements to the branch network. See explanation below.
- Total revenues (financing, net, commissions and other revenues) in 2015 increased by 8.1% compared to 2014.
- Expenses with respect to credit losses in 2015 increased by NIS 38 million compared to 2014. The significant increase in the Bank's loan portfolio caused an increase in the group provision, including a group provision with respect to housing loans calculated in conformity with Bank of Israel directives. Furthermore, in the corresponding period last year, the Bank recognized significant collections from a number of business clients, written off in previous periods.
- Operating and other expenses increased in 2015 by 6.2% compared to 2014.
  The increase in operating and other expenses includes: An increase by 4.2% in payroll and associated expenses, compared to the corresponding period last year, an increase in other expenses for external expert services due to the US DOJ inquiry[1]. See explanation below.

(1) For more information see Note 26.C.12 to the financial statements.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues[(1)] from current operations in 2015 amounted to NIS 3,809 million, as described below, compared to NIS 3,462 million in the corresponding period last year, an increase of 10.0%.

Net interest revenues and non-interest financing revenues [(1)] from current operations in the fourth quarter of 2015 amounted to NIS 963 million, as described below, compared to NIS 878 million in the corresponding period last year, an increase of 9.7%.

Net interest revenues and non-interest financing revenues[(1)] in 2015 amounted to NIS 3,892 million, as described on these financial statements, compared to NIS 3,548 million in the corresponding period last year, an increase of 9.7%.

Net interest revenues and non-interest financing revenues[(1)] in the fourth quarter of 2015 amounted to NIS 947 million, as described on these financial statements, compared to NIS 889 million in the corresponding period last year, an increase of 6.5%.

Below is an analysis of development in financing revenues from current operations (NIS in millions):

	For the year ended December 31,			For the quarter ended December 31,		
	2015	2014	Change in %	2015	2014	Change in %
Interest revenues, net	3,534	3,375		820	846	
Non-interest financing revenues[(1)]	358	173		127	43	
Total financing revenues	3,892	3,548	9.7	947	889	6.5
Less:						
Effect of CPI	(130)	(11)		(95)	(22)	
Revenues from collection of interest on problematic debt	49	77		12	21	
Gain from realized debentures and from debentures held for trade, net	180	125		16	28	
Effect of accounting treatment of derivatives at fair value and others[(2)]	(16)	(105)		51	(16)	
Total effects other than current operations	83	86		(16)	11	
Total financing revenues from current operations	3,809	3,462	10.0	963	878	9.7

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

Below are total financing revenues by operating segment (NIS in millions):

	For the year ended December 31,			
Operating segment	2015	2014	Change amount	Change in %
Retail banking:				
Mortgages	821	735	86	11.7
Households	1,155	1,143	12	1.0
Small business	555	517	38	7.4
Total	2,531	2,395	136	5.7
Private banking	65	64	1	1.6
Commercial banking	165	162	3	1.9
Business banking	775	762	13	1.7
Financial management	356	165	191	-
Total	3,892	3,548	344	9.7

For definition of operating segments, see chapter "Supervisory operating segments" below.

For more information about implementation of the Bank of Israel directives with regard to supervisory segments, see Note 1.C.9.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	For the year ended December 31,		
Linkage segment	2015	2014	Change in %
Israeli currency - non-linked	117,783	105,258	11.9
Israeli currency - linked to the CPI	52,518	53,845	(2.5)
Foreign currency (including Israeli currency linked to foreign currency)	13,627	13,660	(0.2)
Total	183,928	172,763	6.5

The increase in average balance of interest-bearing assets in the NIS-denominated segment is primarily due to higher volume of retail loans.

The decrease in average balances of interest-bearing assets in the CPI-linked segment is primarily due to diversion of uses to the NIS- segment.

Below are interest spreads (difference between interest income on assets and interest expenses on liabilities) based on average balances[(1)], attributable to operations in Israel in the various linkage segments, in percent:

	For the year ended December 31,	
Linkage segments	2015	2014
Israeli currency - non-linked	2.27	2.33
Israeli currency - linked to the CPI	0.25	0.16
Foreign currency	1.52	1.49
Total	1.65	1.67

(1) Average balances before deduction of provision with respect to credit losses.

The decrease in overall interest spreads is primarily due to erosion of deposit spreads, due to the low interest rate environment.

Composition of interest rate differences by various criteria (type of operations, linkage segment and volume / price analysis) is provided in Addendum "Revenue and expense rates" to the financial statements.

Expenses with respect to credit losses for the Group in 2015 amounted to NIS 211 million, or 0.13% of total loans to the public, net compared to NIS 173 million in 2014, or 0.12% of total loans to the public, net), for a total increase of NIS 38 million.

Expenses with respect to credit losses for the Group amounted to NIS 75 million in the fourth quarter of 2015, or an annualized rate of 0.19% of total loans to the public, net, compared with NIS 150 million in the corresponding period last year – an annualized rate of 0.41% of total loans to the public, net in the corresponding period last year - a decrease of NIS 75 million in total.

The significant increase in the Bank's loan portfolio caused an increase in the group provision, including a group provision with respect to housing loans calculated in conformity with Bank of Israel directives. The total expense rate with respect to credit losses out of total loans to the public, net in 2015 was essentially unchanged. See details below.

In the fourth quarter of 2014, the Bank increased the qualitative group provision with respect to loans to individuals to 0.75%, in conformity with the Supervisor of Banks' directives.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	For the year ended December 31,		For the quarter ended December 31,	
	2015	2014	2015	2014
Provision for credit losses on individual basis (including accounting write-offs)	124	109	73	132
Provision for credit losses on Group basis:				
By extent of arrears	(20)	(20)	(11)	(10)
Other	107	84	13	28
Total expenses with respect to credit losses	211	173	75	150
Expense with respect to credit losses as percentage of total loans to the public, net (annualized):	0.13%	0.12%	0.19%	0.41%
Of which: With respect to commercial loans other than housing loans	0.37%	0.33%	0.60%	1.23%
Of which: With respect to housing loans	0.01%	0.01%	(0.02%)	(0.02%)

Below are details of expenses with respect to credit losses by major operating segments of the Group (NIS in millions):

Operating segment	For the year ended December 31,		For the quarter ended December 31,	
	2015	2014	2015	2014
Retail banking:				
Mortgages	10	6	(4)	(5)
Households	42	88	16	62
Small business	104	98	25	27
Total	156	192	37	84
Private banking	3	3	1	1
Commercial banking	16	(10)	(2)	1
Business banking	38	(3)	40	67
Financial management	(2)	(9)	(1)	(3)
Total	211	173	75	150

Net interest revenues after expenses with respect to credit losses in 2015 amounted to NIS 3,323 million (including non-interest financing revenues - NIS 3,681 million), compared to NIS 3,202 million in the corresponding period last year (including non-interest financing revenues - NIS 3,375 million). Net interest revenues after expenses with respect to credit losses and including non-interest financing revenues, increased in 2015 by 9.1% compared to the corresponding period last year.

Net interest revenues after expenses with respect to credit losses in the fourth quarter of 2015 amounted to NIS 745 million (including non-interest financing revenues - NIS 872 million), compared to NIS 696 million in the corresponding period last year (including non-interest financing revenues - NIS 739 million). Net interest revenues after expenses with respect to credit losses and including non-interest financing revenues, increased in the fourth quarter of 2015 by 18.0% compared to the corresponding period last year.

See above the analysis of evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest revenues amounted to NIS 1,858 million in 2015, compared with NIS 1,612 million in 2014, an increase of 15.3%. See explanation below.

Non-interest expenses for the Group amounted to NIS 517 million in the fourth quarter of 2015, compared with NIS 426 million in the corresponding period last year - a year-over-year increase of 21.4%.

Non-interest financing revenues in 2015 amounted to NIS 358 million, compared to NIS 173 million in the corresponding period last year.

Non-interest financing expenses in the fourth quarter of 2015 amounted to NIS 127 million, compared to NIS 43 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

Commission revenues amounted to NIS 1,426 million in 2015, compared with NIS 1,395 million in 2014, an increase of 2.2%.

Commission revenues in the fourth quarter of 2015 amounted to NIS 355 million, compared to NIS 364 million in the corresponding period last year, a decrease of NIS 9 million. In the fourth quarter of 2014, non-recurring commissions amounting to NIS 12 million were recognized.

The increase in commission revenues compared to 2014 is due to continued growth in operating volume, including increase in revenues from clients' securities operations, from foreign currency trade operations and despite the negative impact of various regulatory provisions (see section "Legislation and Supervision of Bank Group Operations" in the chapter "Corporate governance, audit, other information about the Bank and its management" in the financial statements).

Other revenues amounted to NIS 74 million in 2015, compared with NIS 44 million in 2014, an increase of NIS 30 million.

Other revenues in the fourth quarter of 2015 amounted to NIS 35 million, compared to NIS 19 million in the corresponding period last year, an increase of NIS 16 million.

Growth in Other revenues is primarily due to the effect of asset reorganization and improvements to the branch network.

Operating and other expenses amounted to NIS 3,226 million in 2015, compared with NIS 3,039 million(1) in 2014, an increase of 6.2%.

The increase in operating and other expenses includes: An increase by 4.2% in payroll and associated expenses, compared to the corresponding period last year, an increase in other expenses for external expert services due to the US DOJ inquiry(2).

Operating and other expenses amounted to NIS 819 million in the fourth quarter of 2015, compared with NIS 787 million(1) in the corresponding period last year - an increase of 4.1%.

Payroll and associated expenses amounted to NIS 1,944 million in 2015, compared with NIS 1,866 million(1) in 2014, an increase of 4.2%.

Payroll and associated expenses amounted to NIS 499 million in the fourth quarter of 2015, compared with NIS 455 million(1) in the corresponding period last year - an increase of 9.7%, primarily due to timing differences in recognizing associated payroll expenses.

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(2) For more information see Note 26.C.12 to the financial statements.

Maintenance and depreciation expenses for buildings and equipment in 2015 amounted to NIS 692 million, compared to NIS 715 million(1) in 2014, a year-over-year decrease of 3.2%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 169 million in the fourth quarter of 2015, compared with NIS 195 million(1) in the corresponding period last year - a decrease of 13.3%.

In 2014, a non-recurring provision for impairment of capitalized software development cost, amounting to NIS 20 million, was recognized. In addition, the revised method for amortization of software developed by the Bank affected the decrease in depreciation expenses in 2015(1).

For more information about expenses with respect to IT, see chapter "Composition and development of assets, liabilities, capital and capital adequacy" below.

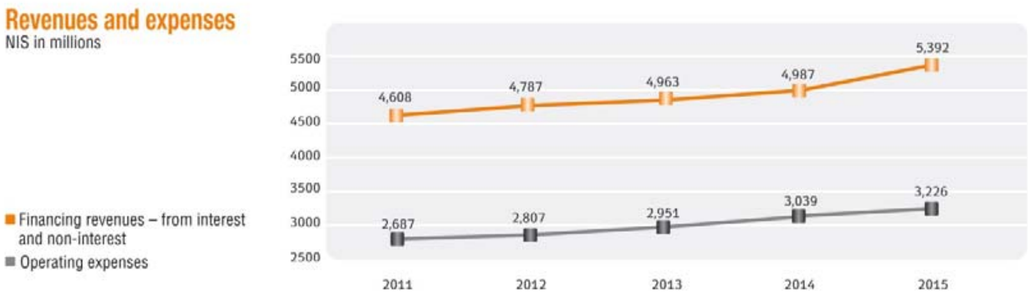
Other expenses amounted to NIS 590 million in 2015, compared with NIS 458 million in 2014.

Other expenses in the fourth quarter of 2015 amounted to NIS 151 million, compared to NIS 137 million in the corresponding period last year. **See explanation above.**

Cost-Income ratio information is as follows(1) (in percent):

	2015				2014			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(2)(1)	61.3	56.9	58.4	63.4	61.9	60.9	58.6	62.6

	For the year ended December 31,	
	2015	2014
Cost-Income Ratio(2)(1)	59.8	60.9



(1) The total operating and other expenses with regards to the total income before expenses with respect to credit losses.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Pre-tax profit for the Group amounted to NIS 1,955 million in 2015, compared with NIS 1,775 million[(2)] in 2014, an increase of 10.1%.

Pre-tax profit for the Group in the fourth quarter of 2015 amounted to NIS 443 million, compared to NIS 335 million[(2)] in the corresponding period last year – an increase of 32.2%. See detailed explanation above.

Provision for taxes amounted to NIS 761 million in 2015, compared with NIS 657 million in 2014.

Provision for taxes in the fourth quarter of 2015 amounted to NIS 197 million, compared to NIS 128 million in the corresponding period last year.

The provision rate for taxes out of earnings in 2015 was 38.9%, compared to 37.0% in 2014. The increase in the provision rat for taxes out of earnings is due, inter alia, to the increase in deferred tax expenses with respect to the decrease in profit tax rate to 17% and to disallowed expenses for tax purposes.

The increase in provision for taxes is also attributable to the increase in Group pre-tax profit. See explanation above.

The Bank's share of after-tax profit of associates in 2015 amounted to nil, compared to profit amounting to NIS 5 million in 2014.

The Bank's share of after-tax profit of associates in the fourth quarter of 2014 amounted to nil, compared to loss amounting to NIS 1 million in the corresponding period last year.

The share of non-controlling interest in net results of subsidiaries in 2015 amounted to NIS 60 million, compared to NIS 31 million in 2014.

The share of non-controlling interest in net results of subsidiaries in the fourth quarter of 2015 amounted to NIS 6 million, compared to NIS 3 million in the corresponding period last year.

The increase in the share of non-controlling interest in net results of subsidiaries is due to the increase in profit of Bank Yahav.

Net profit attributable to shareholders of the Bank amounted to NIS 1,134 million in 2015, compared with NIS 1,092 million[(1)] in 2014, an increase of 3.8%.

Net profit attributable to shareholders of the Bank amounted to NIS 240 million in the fourth quarter of 2015, compared with NIS 203 million[(1)] in the corresponding period last year - an increase of 18.2%.

Other comprehensive income attributable to shareholders of the Bank primarily includes changes in adjustments for presentation of securities available for sale at fair value, changes in cash flow hedges and changes in adjustments with respect to employee benefits.

In 2015, other comprehensive income attributable to shareholders of the Bank decreased by NIS 10 million compared to the corresponding period last year.

In the fourth quarter of 2015, other comprehensive income attributable to shareholders of the Bank increased by NIS 4 million compared to the corresponding period last year.

The change in Other Comprehensive Income attributable to shareholders of the Bank compared to the corresponding period last year is primarily due to adjustments with respect to employee benefits. See Note 10 to the financial statements for details.

For more information about results of the Bank Group for the interim period, see multi-quarter information for the past two years in Addendums to the Chapter "Corporate governance" on the financial statements.

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Below is the development of Group return[(1)] on equity[(2)] and ratio of Tier I capital[(3)] to risk elements, liquidity coverage ratio[(4)] and leverage ratio at the end of the quarter[(5)] (in %):

				2015				2014
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity[(6)]	8.4	11.5	12.4	9.4	7.8	12.6	12.7	11.4
Ratio of Tier I capital to risk elements at end of quarter[(6)]	9.50	9.30	9.30	9.10	9.05	8.95	8.94	8.80
(Quarterly) liquidity coverage ratio[(4)]	91	84	84	-	-	-	-	-
Leverage ratio at end of quarter[(5)]	5.32	5.32	5.24	-	-	-	-	-

	For the year ended December 31,		
	2015	2014	2013
Net return on equity[(4)]	10.0	10.6	11.8

(1) Annualized return.

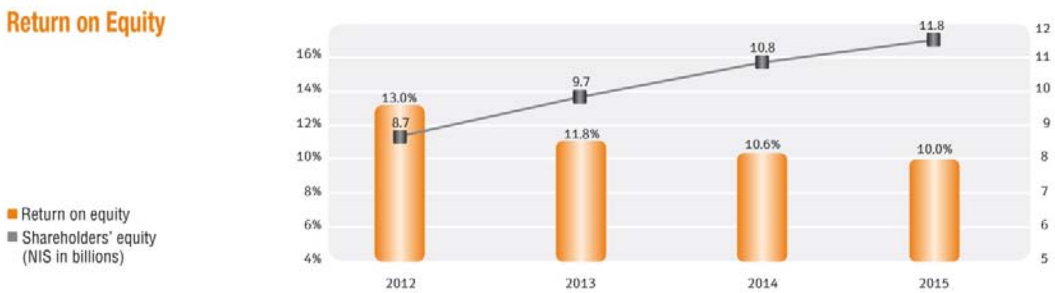
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.

(3) For more information about Proper Banking Conduct of Directive329 concerning "Restrictions on provision of housing loans" on Tier I equity as from January 1, 2015, see Note 25.K. to the financial statements and the chapter "Corporate Governance" on the financial statements.

(4) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations in the reported period.

(5) Leverage Ratio - ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218

(6) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements. According to these directives, capital adequacy data only include retroactive application with regard to capitalization of software costs.



Earnings per share

Earnings per ordinary, NIS 0.1 par value share are as follows (in NIS):

	Fourth Quarte		For the year ended December 31		
	2015	2014	2015	2014	2013
Basic earnings per share(1)	1.04	0.88	4.90	4.74	4.74
Diluted earnings per share(1)	1.03	0.88	4.89	4.71	4.71

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Analysis of composition of assets, liabilities, capital and capital adequacy

Assets and liabilities

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

	December 31,		
	2015	2014	Change in %
Balance sheet total[(1)]	209,158	198,513	5.4
Cash and deposits with banks	30,489	26,798	13.8
Loans to the public, net	159,204	147,569	7.9
Securities	11,845	14,259	(16.9)
Buildings and equipment[(1)]	1,583	1,570	0.8
Deposits from the public	162,380	152,379	6.6
Debentures and subordinated notes	23,719	20,580	15.3
Shareholders' equity[(1)]	11,847	10,797	9.7

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Cash and deposits with banks - the balance of cash and deposits with banks increased in 2015 by NIS 3.7 billion. The increase in cash balance is part of management of the liquidity coverage ratio.

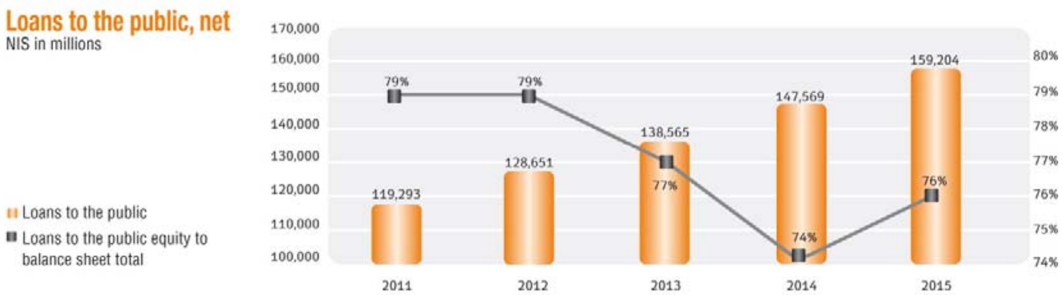
Loans to the public, net - loans to the public, net on the consolidated balance sheet as of December 31, 2015 accounted for 76% of total assets, compared to 74% at the end of 2014. Loans to the public, net for the Group increased in 2015 by NIS 11.6 billion, an increase of 7.9%.

Loans to the public, net by linkage basis (NIS in millions) are as follows:

	Balance as of December 31		Change in %	Percentage of total loans to the public as of December 31	
	2015	2014		2015	2014
Israeli currency					
Non-linked	95,814	82,823	15.7	60.2	56.0
CPI- linked	51,836	52,876	(2.0)	32.6	36.0
Foreign currency and foreign currency linked	11,554	11,870	(2.7)	7.3	8.0
Total	159,204	147,569	7.9	100.0	100.0

Loans to the public, net by operating segments (NIS in millions) are as follows:

Operating segment	2015	2014	Change in %
Retail banking:			
Mortgages	100,949	91,581	10.2
Households	22,074	20,462	7.9
Small business	9,871	9,018	9.5
Total retail	132,894	121,061	9.8
Private banking	934	1,051	(11.1)
Commercial banking	4,484	4,240	5.8
Business banking	20,892	21,217	(1.5)
Total – business and others	26,310	26,508	(0.7)
Total	159,204	147,569	7.9



Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debt, credit risk and provision for credit loss:

Reported amounts	As of December 31, 2015			As of December 31, 2014		
(NIS in millions)	Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problematic credit risk						
Impaired credit risk	817	169	986	781	172	953
Inferior credit risk	82	-	82	110	-	110
Credit risk under special supervision(2)	1,318	329	1,647	1,162	50	1,212
Total problematic credit risk	2,217	498	2,715	2,053	222	2,275
Of which: Non-impaired debt in arrears 90 days or longer(2)	1,012			1,001		
2. Non-performing assets(3)	774			726		

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 957 million (as of December 31, 2014 - NIS 945 million).
(4) Non-interest accruing assets.

For more information see Notes 13 and 30 to the financial statements.

Development of Group credit risk distribution by size of borrower (in %) is as follows:

	2015		2014	
Credit risk for borrower (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	10.9	72.2	11.4	73.6
150-600	23.4	18.2	23.3	17.7
600-2,000	33.0	8.9	30.6	8.0
Above 2,000	32.7	0.7	34.7	0.7

Credit risk by major industrial sectors[(1)] with respect to borrower operations in Israel (in NIS millions)

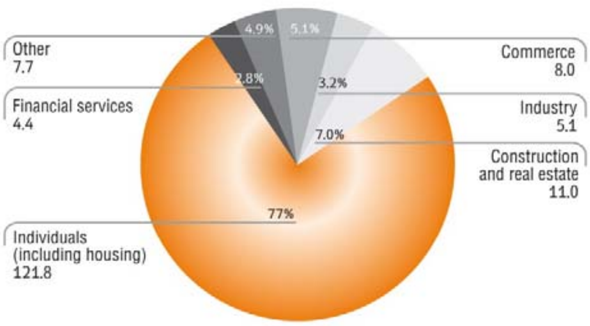
	2015		2014		
Sector	Balance sheet credit risk	Percentage of total balance-sheet credit risk	Balance sheet credit risk	Percentage of total balance-sheet credit risk	Change in %
Private individuals (includes mortgages)	121,841	77.0	110,726	74.8	10.1
Construction and real estate	11,018	7.0	11,455	7.7	(4.3)
Financial services	4,439	2.8	4,985	3.4	(10.7)
Industry	5,122	3.2	6,169	4.2	(9.5)
Commerce	8,020	5.1	6,591	4.5	7.2
Other	7,716	4.9	7,945	5.4	1.7
Total	158,156	100.0	147,871	100.0	7.0

(1) Includes credit and investments in debentures by the public, and other assets with respect to derivatives of the public.

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk for the Bank Group as of December 31, 2015 amounted to NIS 217 billion, compared to NIS 207 billion in 2014 - an increase of 4.8%.

Balance sheet credit risk in Israel by economic sector – as of December 31, 2015

NIS in billions



Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

	December 31, 2015	December 31, 2014	Change in % over December 31, 2014
Off balance sheet financial instruments other than derivatives [(1)]:			
Documentary credit	472	345	36.8
Loan guarantees	2,245	2,173	3.3
Guarantees to home buyers	11,597	10,450	11.0
Guarantees and other liabilities	4,546	4,007	13.5
Unutilized revolving credit card facilities	7,848	7,478	4.9
Unutilized debitory account and other credit facilities in accounts available on demand	16,588	19,773	(16.1)
Irrevocable commitments for loans approved but not yet granted	12,901	11,807	9.3
Commitments to issue guarantees	5,629	7,040	(20.0)
Financial instruments[(2)]:			
Total par value of derivative financial instruments	237,147	271,477	(12.6)
(On-balance sheet) assets with respect to derivative instruments	3,527	5,602	(37.0)
(On-balance sheet) liabilities with respect to derivative instruments	3,634	6,497	(44.1)

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses. For more information see Note 30.E to the financial statements.

(2) Includes forward transactions, swaps, options and credit derivatives.

For more information about on-balance sheet and off-balance sheet credit risk, see chapter "Risk" below and the Detailed Risk Management Report on the Bank website.

Securities - investment in securities increased in 2015 by NIS 2.4 billion. The decrease in total investment in securities is in the context of asset and liability management.

Composition of Group securities by portfolio (NIS in millions) is as follows:

					December 31, 2015
	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Securities held to maturity	3,320	3,320	71	-	3,391
Securities available for sale	8,303	8,323	[2]20	[2](40)	8,303
Securities held for trade	222	222	-	-	222
Total securities	11,845	11,865	91	(40)	11,916

					December 31, 2014
	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Securities held to maturity	5,261	5,261	78	-	5,339
Securities available for sale	7,964	7,956	[2]31	[2](23)	7,964
Securities held for trade	1,034	1,042	-	[3](8)	1,034
Total securities	14,259	14,259	109	(31)	14,337

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(3) Charged to statement of profit and loss but not yet realized.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

	Balance as of December 31		
Linkage segment	2015	2014	Change (in %)
Israeli currency			
Non-linked	7,002	10,192	(31.3)
CPI- linked	66	699	(90.6)
Foreign currency and foreign currency linked	4,679	3,264	43.4
Non-monetary items	98	104	(5.8)
Total	11,845	14,259	(16.9)

Distribution of Group security portfolio by issuer type (NIS in millions) is as follows:

	Carrying amount as of	
	December 31, 2015	December 31, 2014
Government debentures:		
Government of Israel	9,788	13,631
Government of USA	1,624	115
UK Government	-	-
South Korea Government	40	-
Total government debentures	11,452	13,746
Debentures of banks in developed nations:		
UK	79	97
Israel	-	123
Germany	(1)117	117
Other - Euro Zone	78	-
Other	-	5
Total debentures of banks in developed nations	274	342
Corporate debentures (composition by sector):		
Industry and production	10	10
Construction and real estate	-	16
Electricity and water	-	1
Public and community services	11	11
Financial services	-	29
Total corporate debentures	21	67
Shares	98	104
Total securities	11,845	14,259

(1) As of the approval date of these financial statements, the debentures have been redeemed and there is no exposure with respect there to.

For more information about investment in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its share out of the amortized cost, see Note 12 to the financial statements.

Buildings and equipment - The balance of buildings and equipment increased in 2015 by 0.8%. The change in balance of buildings and equipment is due to new investments, primarily investments in technology, depreciation and realized assets as part of asset re-organization and improvements to the branch network. See Note 16 to the financial statements for additional information.

Investments and expenses with respect to IT

Below is information about investments and expenses for the Bank with respect to IT.

IT network-related expenses, as listed on the statement of profit and loss (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2015				2014			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses(1)	151	23	61	235	(6)151	22	64	(6)237
Usage license expenses not capitalized into assets(2)	98	11	2	111	88	18	2	108
Outsourcing expenses(3)	37	2	1	40	(6)40	2	1	(6)43
Depreciation expenses(4)	140	38	3	181	(6)175	35	3	(6)213
Other expenses(5)	11	1	(7)100	112	10	1	101(7)	112
Total expenses	437	75	167	679	464	78	171	713

Total cost with respect to IT recognized as assets on the financial statements in the reported period

Additional IT-related assets not expensed (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2015				2014			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses(1)	24	-	-	24	19(6)	-	-	19(6)
Cost of acquisition of usage licenses(2)	71	28	1	100	60(6)	43	1	104(6)
Outsourcing expenses(3)	84	7	-	91	76(6)	1	-	77(6)
Total	179	35	1	215	155	44	1	200

Balance of IT network-related assets at the end of the reported period

Balance of IT network-related assets (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2015				2014			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total depreciated balance	410	77	9	496	305(6)	92	9	406(6)
Of which: Payroll and associated expenses	52	-	-	52	41(6)	-	-	41(6)

(1) Includes payroll of hardware and software professionals as well as payroll of other IT network staff, such as: administrative staff, maintenance staff and operations staff. Payroll costs added to assets include labor costs for development of software for the Bank's own use, capitalized to assets in accordance with generally accepted accounting principles.

(2) These expenses primarily consist of current software maintenance. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to usage licenses are with respect to software acquisition.

(3) These expenses are with respect to hardware and software maintenance by external employees. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to outsourcing include cost of external employees employed by the Bank to develop software for the Bank's own use.

(4) For more information about accounting policies with regard to depreciation expenses, see Notes 1.D.8 and 16 to the financial statements.

(5) Includes expenses with respect to rent and taxes, communication and general & administrative expenses.

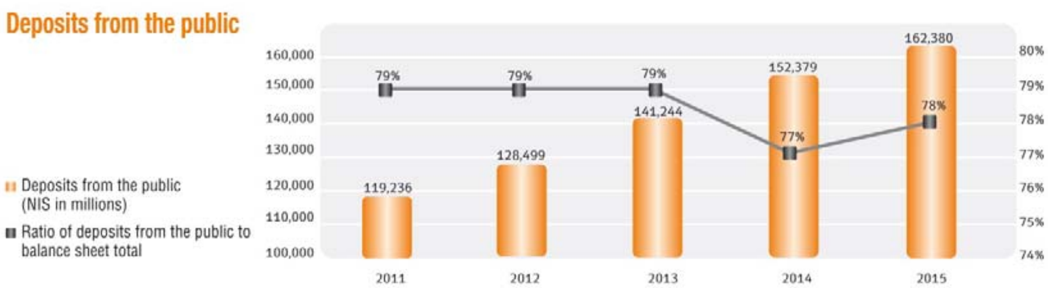
(6) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.C.2 to the financial statements.

(7) In 2015, includes NIS 53 million (similar to 2014) which constitutes payments to banks providing IT services to Bank Yahav.

Deposits from the public - these account for 78% of total consolidated balance sheet as of December 31, 2015, compared with 77% at the end of 2014. In 2015, deposits from the public for the Bank Group increased by NIS 10.0 billion, an increase of 6.6%.

Composition of deposits from the public by linkage segments (NIS in millions) is as follows:

	Balance as of December 31		Change in %	Share of total deposits from the public as of December 31 (in percent)	
Linkage segment	2015	2014		2015	2014
Israeli currency					
Non-linked	109,091	98,541	10.7	67.2	64.7
CPI- linked	16,764	19,040	(12.0)	10.3	12.5
Foreign currency and foreign currency linked	36,525	34,798	5.0	22.5	22.8
Total	162,380	152,379	6.6	100.0	100.0



Composition of deposits from the public by operating segments (NIS in millions) is as follows:

Operating segment	2015	2014	Change in %
Retail banking:			
Households	72,284	65,701	10.0
Small business	13,903	11,068	25.6
Total retail	86,187	76,769	12.3
Private banking	8,512	9,090	(6.4)
Commercial banking	5,345	4,546	17.6
Business banking	50,816	47,117	7.9
Financial management	11,520	14,857	(22.5)
Total	162,380	152,379	6.6

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows:

	December 31,	
	2015	2014
Maximum deposit		
Up to 1	55,171	50,887
Over 1 to 10	34,787	31,119
Over 10 to 100	17,311	15,522
Over 100 to 500	16,776	15,511
Above 500	38,335	39,340
Total	162,380	152,379

Deposits from banks - The balance of deposits from banks decreased in 2015 by NIS 0.1 billion.
For more information on the evolution of the composition of deposits from the public and the evolution of the composition of deposits from banks, see Notes 18 and 19 to the financial statements.

Debentures and subordinated notes - The balance of debentures and subordinated notes increased in 2015 by NIS 3.1 billion. See also chapter "Developments in financing sources" above.

For more information about balances of assets and liabilities for the Bank Group for interim periods, see multi-quarter information for the past two years in Addendums to the Chapter "Corporate governance" on the financial statements.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank - Shareholder equity attributable to shareholders of the Bank increased in 2015 by NIS 1.0 billion, to NIS 11.8 billion.

Below is the composition of shareholder equity (NIS in millions):

	As of December 31		
	2015	2014	Change (in %)
Share capital and premium	2,222	2,197	1.1
Capital reserve from benefit from share-based payment transactions	68	66	3.0
Treasury shares	(76)	(76)	-
Cumulative other comprehensive income (loss)[1]	(97)	(72)	(34.7)
Retained earnings[2]	9,730	8,682	12.1
Total	11,847	10,797	9.7

The ratio of shareholders' equity to balance sheet total for the Group as of December 31, 2015 was 5.66%, compared to 5.44%[2] as of the end of 2014.

(1) Changes to Cumulative Other Comprehensive Income include changes to capital reserves and other adjustments to shareholder equity attributable to shareholders of the Bank, as presented in Note 10 to the financial statements.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in accordance with Basel rules, as prescribed by Proper Banking Conduct Directives 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operational risk and market risk.

The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of Banks and with restrictions set by the Board of Directors, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. For this purpose, the Board of Directors has created a policy document which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital planning and management forum has been operating for several years, attended by the Manager, Finance Division - CFO (chair), Risk Control Division - CRO, and the Manager, Accounting and Financial Reporting Division - the Chief Accountant, the Manager, Planning, Operations and Client Assets Division, the Manager, Business Banking Division and the Manager, Retail Division at the Bank. This policy document is an annex to the Bank's master policy on risk management, capital planning and internal control.

As part of implementation of Basel II Pillar 2, the Bank annually files its ICAAR document - which is a report highlighting action taken by the Bank during the year as part of the ICAAP process. On December 31, 2015, the Bank sent its seventh ICAAR document to the Bank of Israel. The ICAAR report consists of several chapters which describe corporate governance for risk management at the Bank, the capital targets and targets of the strategic plan, as well as developments during the year in management of various risks identified and mapped by the Bank. At the core of this document is the capital planning process, conducted across a planning horizon of three years to come, in which the Bank challenges its strategic plan and its overall capital targets, using a long, diverse range of hypothetical stress tests which significantly impact Bank profitability and erode its capital. The outcome of the Bank's current capital planning indicates that the Bank has sufficient general capital to fulfill its strategic plan and capital targets specified by the Board of Directors.

Below is information about supervisory capital and risk assets on the consolidated report:

	As of December 31	As of December 31
	2015	2014
Capital for purpose of calculating minimum capital ratio		
Tier I capital	12,299	11,273(1)
Tier I capital	12,299	11,273
Tier II capital	4,916	4,883
Total capital	17,215	16,156
Weighted risk asset balances		
Credit risk	120,793	116,159(1)
Market risk	950	1,020
Operational risk	7,743	7,383
Total weighted risk asset balances	129,486	124,562

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements. According to these directives, capital adequacy data only include retroactive application with regard to capitalization of software costs.

Ratio of capital to risk elements

As from January 1, 2014, the Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Banking Conduct Directives 201-211.As per instructions of the Supervisor of Banks, as from January 01, 2015 the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk elements of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions specifies the manner of calculation of total capital and total risk elements

As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date.

This requirement is being gradually implemented through January 1, 2017. Accordingly, the minimum Tier I equity ratio and the minimum total equity ratio required by the Supervisor of Banks, as of January 01, 2017, on consolidated basis, in conformity with data as of the reporting date, are 9.8% and 13.3%, respectively.

See Note 25 to the financial statements for additional information.

On July 23, 2012 the Bank's Board of Directors approved a strategic plan for 2013-2017 (hereinafter: "the original strategic plan" or "the original plan"), based on the following principles:

- The target set in the original plan is to present, in 2017, an average net operating profit return on equity of 17%, based on the target core capital ratio of 7.5%.
- On that date, the Bank Board of Directors instructed the Bank to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012, whereby the Bank should adopt by December 31, 2014 a target core capital ratio of no less than 9%, to be applied, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved, on the same date, to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end. The core capital ratio will be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks. Consequently, the average equity basis used for Bank operations would be increased, therefore, arithmetically, any given profit would result in a lower return figure. Accordingly, the target average net operating profit return on equity, adjusted for the regulatory requirement for core capital ratio of 9% or higher, would be 14.5% in 2017. For comparison, this return on equity is equivalent to 17% based on regulatory capital requirements during the term of the previous strategic plan.
- During this strategic plan, the dividend distribution policies adopted by the Bank would be maintained, according to the original plan, whereby, subject to the Bank’s core capital ratio being no less than the target set by the Board of Directors, the Bank would distribute annually dividends equal to 40% of net operating profit and 80% of profit from extraordinary items.

Following publication of the Supervisor of Bank's directives dated May 30, 2013, with regard to adoption of Basel III recommendations in Israel, including Supervisory adjustments, deductions from capital and directives on measurement and capital adequacy – the Bank reviewed once again, on that date, its compliance with schedules to achieve the core capital ratio target of 9% or higher.

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks, on that date, an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.
After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct regulation 329, whereby the target Tier I equity ratio and the target ratio of total capital to risk elements ratio would include an addition equal to 1% of the housing loan portfolio balance.

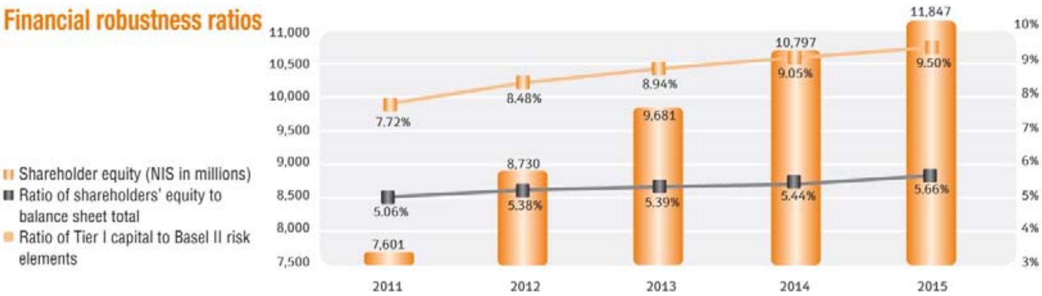
Accordingly, the minimum Tier I equity ratio and the minimum total equity ratio required by the Supervisor of Banks, as of January 1, 2017, on a consolidated basis, in conformity with data as of the reporting date, are 9.8% and 13.3%, respectively.

On December 23, 2014, the Bank Board of Directors instructed Bank management to maintain proper safety margins so that the Bank's Tier I equity would not be lower than the aforementioned.

Development of Group ratio of capital to risk elements is as follows (in %):

	December 31, 2015	December 31, 2014
Ratio of Tier I equity to risk elements(1)	9.50	9.05
Ratio of total capital to risk elements(1)	13.29	12.97
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.30(2)	9.00
Total minimum capital ratio required by the directives of the Supervisor of Banks(2)	12.80(2)	12.50

(1) The requirement as to Minimum Tier I capital adequacy ratio applies as from January 1, 2014.
(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015.
To these ratios, as from January 1, 2015, an additional capital requirement would be added expressed as 1% of the housing loan balance as of the reporting date. This requirement is applied gradually through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on consolidated basis, based on data as of the reporting date, are 9.8% and 13.3%, respectively.



Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations shall maintain a leverage ratio of 5% or higher on consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

The Bank's leverage ratio as of December 31, 2015 is 5.32%.
The minimum leverage ratio required by the Supervisor of Banks is 5.00%.
For more information see Note 25 to the financial statements and the Detailed Risk Management Report on the Bank website.

Dividends

Dividend distribution policies

On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policies, whereby, provided that the Bank's capital ratio is not less than 10% (in terms of Proper Conduct of Banking Business Regulation 311 - Basel I), dividends will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policies are in effect as from the year 2006. On July 23, 2012, the Bank's Board of Directors determined, in conjunction with approval of the new strategic five-year plan for 2013-2017, that during the plan term, the Bank's adopted dividend distribution policies would be maintained.

On August 14, 2013, the Bank Board of Directors resolved to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

On December 23, 2014, in addition to updating the Bank's strategic plan (as described in the chapter "Business strategy" below), the Bank's Board of Directors resolved to approve a revised dividend distribution policy, in lieu of the dividend distribution policy listed in section 1.C. of the previous Immediate Report. The revised dividend policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.

The revised dividends policies are subject to the Bank's maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

In 2017, the dividends policies would be as specified in section 1.C. of the previous Immediate Report. This is subject to the Bank's Tier I capital ratio being no less than the target required by the Supervisor of Banks' directives and subject to maintaining proper safety margins.

The Bank has received approval by the Supervisor of Banks for the aforementioned outline of its dividends policies.

Note that dividend distribution is subject to statutory provisions and to restrictions specified by the Supervisor of Banks, as described in Note 24 to the financial statements.

For more information, see Immediate Reports dated December 24, 2014 (references 2014-01-229338 and 2014-01-229341). These mentions constitute inclusion by way of reference of all information provided in the aforementioned immediate reports.

Dividend distribution

In conformity with the revised dividends policies, as noted above, the Bank's Board of Directors resolved, on May 18, 2015, to distribute dividends amounting to NIS 36.6 million with respect to earnings in the first quarter of 2015. The aforementioned dividends were paid on June 14, 2015.

On August 16, 2015, , the Bank's Board of Directors resolved to distribute dividends amounting to NIS 49.5 million with respect to earnings in the second quarter of 2015. The aforementioned dividend was paid on September 17, 2015.

On February 24, 2016, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 36.0 million with respect to earnings in the fourth quarter of 2015[(1)].

Below are details of dividends distributed by the Bank since 2013 (in reported amounts):

Declaration date	Payment date	Dividends per share	Total dividends paid
		(Agorot)	(NIS in millions)
August 14, 2013	September 10, 2013	32.77	75.0
May 18, 2015	June 14, 2015	15.84	[(2)]36.6
August 16, 2015	September 17, 2015	21.35	[(3)]49.5

(1) The dividend amount is 155.2% of issued share capital, i.e. NIS 0.1552 per NIS 0.1 par value share. The effective date for dividend payment is March 09, 2016 and the payment date is March 21, 2016. The final dividends per share is subject to change due to realized convertible securities of the Bank.

(2) The dividends amount is 158.4% of issued share capital, i.e. NIS 0.1584 per NIS 0.1 par value share. The effective date for dividends payment was June 01, 2015 and the payment date was June 14, 2015.

(3) The dividend amount is 213.5% of issued share capital, i.e. NIS 0.2135 per NIS 0.1 par value share. The effective date for dividends payment was August 30, 2015 and the payment date was September 17, 2015.

Other Off Balance Sheet Activity

Below is the development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

	Balance as of December 31		Change in % over December 31,
	2015	2014	2014
Securities[1]	208,514	210,645	(1.0)
Assets of provident funds for which the Group provides operating services	74,269	71,649	3.7
Assets of mutual funds for which the Bank provides operating services	16,219	21,241	(23.6)
Assets held in trust by the Bank Group	72,977	77,849	(6.3)
Other assets under management[2]	9,964	11,637	(14.4)

(1) Value of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(2) Including:
- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin revenues or commissions.
- Other loans managed by the Bank.

Description of Businesses of the Bank Group by Operating Segment

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure in past periods, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" below and Note 1.C.9 to the financial statements.

In 2015, the Bank's operating segments are:

Household segment - under responsibility of the Retail Division. This segment includes household clients with relatively minor financial activity, as well as the mortgage sector. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment - under responsibility of the Retail Division, The segment serves small companies and small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 2.5 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - this segment is under responsibility of the Major Corporations Sector of the Business Division. This segment serves the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The main products offered by the Bank's different operating segments are:

- **Banking and finance** – an array of banking services offered to private and corporate clients, including management of checking accounts, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** – security transactions for clients on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution, which are among investment tracks available to Bank clients.
- **Credit cards** – A set of financial products and banking services given in conjunction with credit cards issued to Bank clients by credit card companies in Israel.
- **Mortgages** – Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- **Construction and real estate** – banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to operations there of, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to the Financial Management segment.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to the Financial Management segment.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commission revenues and other revenues are specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.

- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

In order to analyze results of Bank operations by relevant criteria, clients have been assigned to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank's organizational structure in 2015, on client assignment to various departments and then to operating segments, and on attribution of results and balances to clients and segments in the profitability measurement system.

Financial Information on Operating Segments

Summary of financial results of operating sectors, as defined by the Bank, (NIS in millions) are as follows.

	Net profit		Share of total net profit (in %)		Return on equity (in %)	
	For the year ended December 31,					
	2015	2014	2015	2014	2015	2014
Household:						
Mortgages	420	396	37.0	36.3	8.2	8.5
Other	85	70	7.5	6.4	6.2	5.8
Private banking	29	25	2.6	2.3	33.3	33.1
Small business	125	112	11.0	10.3	19.6	21.7
Commercial banking	55	65	4.9	6.0	12.1	15.4
Business banking	411	439	36.2	40.1	11.4	12.8
Financial management	9	(15)	0.8	(1.4)	68.8	-
Total	1,134	1,092	100.0	100.0	10.0	10.6

Household segment

Highlights of segment attributes

The household segment mainly consists of individual clients, with low levels of indebtedness and relatively small-scale financial activity. Segment clients include those with individual accounts, joint accounts for spouses etc. as well as mortgage borrowers. The segment is highly diversified, and is handled by the Bank's Retail Division.

Goods and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework

- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the client's needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Directive 325, clients are not allowed to exceed their determined credit limit.
- **Investments: Providing investment**-related services to customers, such as: Various deposits for different terms.
- **Loans: General**-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Assistance in financing car purchase:** Activity related to loans for new car purchase from importers, whereby the Bank and several car importers work jointly to offer joint promotions for financing car purchasing by clients.

Mortgages

Major services related to mortgages:

Loans out of Bank funds - Loans out of Bank funds and at its risk, are extended for purchase of real estate or for construction, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to maintain profitability and allowing clients to diversify risk.

In view of the downward trend in Bank of Israel interest and the low interest rate, the share of loans bearing fixed interest in the CPI-linked and non-linked track increased.

For information about restrictions on LTV ratio for housing loans, see below under "Material legislation developments in this segment".

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to clients who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Housing Loan Act.

In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans").

Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.

Bank revenues from all loans to eligible borrowers under State responsibility in 2015 amounted to NIS 52 million, compared to NIS 56 million in 2014 and to NIS 69 million in 2013.

For details of the agreement between the Ministry of Finance and banks, for provision of loans to eligible borrowers with low point rating out of Bank funds and under Bank responsibility, see Note 26.C.18.

Insurance marketing (insurance incidental to mortgages)

The vast majority of borrowers are insured in life insurance policies related to the loan, and most of the properties serving as collateral are insured by property insurance.

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to housing loans are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

In order to maintain the required separation between the mortgage activities and insurance activities, special stations linked directly to the Bank-owned insurance agency were set up in the Bank branches that issue mortgages. These stations allow clients to contact the insurance agency and to obtain life insurance and property insurance. Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2015	2014	2013
Life insurance	93	96	91
Property insurance	15	21	24
Total revenues from sale of insurance	108	117	115

In 2015, life insurance revenues decreased, due to erosion of interest premiums and competition in this market. The decrease in property insurance revenues is also due to competition in this market, to lower commission paid to the insurance agency and a lower rate for property insurance premium for property insurance to clients, as stipulated by the Ministry of Finance.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by clients (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients a range of credit cards are offered. The Bank offers its clients all types of credit cards available in Israel, acting in this area with credit card companies Isracard, CAL as well as Leumi Card (since late 2015). The Bank offers its clients credit cards that are issued by these companies when opening a private account in the Bank, according to the client's request. The Bank also has several products in the credit card sector:

"**The Card**": A Mizrahi-Tefahot credit card which also serves as the Bank's own client loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits. The objective of The Card is to reinforce relationships and extend activity with existing clients, as well as another means of recruiting new clients by the Bank.

For more information about the agreement with CAL group, *inter alia*, with regard to issuance of the branded credit card, see Note 26.C.13 to the financial statements.

"**Tefahot Credit Card**": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client's repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason. To this end, the client will be issued a unique credit card. The credit card charges will accumulate in the current account and be transferred periodically to the mortgage account.

"Current" credit card for Tefahot clients: In conjunction with the Bank's synergy activity, it offers a credit card based on "The Card" platform, intended for clients who took out a mortgage at the Bank and do not have an active current account at the Bank. These clients enjoy the various benefits of "The Card" club, and monthly charges are paid to the Bank by debit order to the client's active account at another bank.

"**Free Student**" credit card: This card provides students with general-purpose credit. Credit with this card may be used over 3 years and bears a special, attractive interest rate for the actual credit utilized. Credit payments are flexible, with initial repayment of principal and interest starting on the third anniversary of the card issue date (a 1-year extension may be applied for). Clients may repay early, in full or partial payment, with no fees or charges.

Unique services provided by the Bank to segment clients

The key unique service offered by the Bank is Hybrid Banking, which allows clients easy, direct access to a personal banker using a range of readily available technologies. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 13 clusters. Later on, branch teams have been formed - each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by telephone, cell phone, SMS and email messages from anywhere during 12 hours of operation, from 8am to 8pm. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. The Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.

The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:

"Priority Account": Personalized banking assistance.

"**Executive Account**": The unique brand, "Executive Account", launched in 2007 allows a preferred segment of individuals to make the most of managing their current account with the Bank. The brand emphasizes service, account management, bank value propositions, financial benefits and non-banking services provided to Executive Account clients. Clients may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select clients.

Benefits to mortgage holders: Unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.

Retirement advisory service: The Bank offers a retirement advisory service to Bank clients and to clients of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

Major markets and distribution channels

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct channels, serving Hybrid Banking. The Bank has no dependence on marketing and distribution parties in its operations in this segment.

Bank branches – the Group operates 177 business centers, branches, affiliates and representative offices across the country, including 45 Yahav branches. The Bank continues to expand branch deployment and its points of sale, through measures including the addition of commercial activity to the mortgage branches and mortgage activity in the commercial branches.

Direct channels: After launching Hybrid Banking as described above, the nature of direct channel operation changed, and they were re-defined to be tools serving the branch.

Currently, the stand-along direct channels (i.e. not assigned to bank branches) are:

- Banking Center: The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. This service is provided 24 hours a day (except for weekends and holidays).

The banking center provides sale of instant loan services, standing orders and credit cards as well as client preservation for non-bank credit cards.

- Mortgage Center: This center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on housing loans, receiving payments for existing loans and making arrangements and payments for loans in arrears.

  The Hybrid Banking service for mortgages was expanded in 2015 to all Bank branches.
- Sales center: Intended to enhance selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of sales calls. In addition, the sales center handles sales of Mizrahi Tefahot credit cards, refinancing mortgages from other banks for Bank clients, sale of car loans and preventing churn.

  In 2016, the Bank is expected to intensify the mortgage refinancing operations for commercial clients, activities designed to prevent churn, reactivation of open but inactive accounts and will improve performance across its operations by better interfacing with Bank branches.
- Investment center: This center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new clients for savings, focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign securities.
- On line service: Allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.

  In January 2015, the Bank launched a new, advanced website for capital market and investments, designed to offer Bank clients a trading experience among the most advanced in Israel.

  In 2016, the Bank is expected to launch a new website for the mortgage segment and to expand this service to business clients.
- Cell phone application: Allows clients to obtain banking information and conduct transactions by means of cellular browsing using smart phones.
- Notification Box service: Receiving Bank notifications of account activity in a personal notification box via the Bank's website.
- Cell phone service: Disseminating banking and financial information through cell phones.
- IVR service: This service is provided to clients identified by a personal pass-code, providing them with computer-based information for common queries and transactions such as ordering a checkbook free of charge and receiving information by fax at a reduced cost. This service is available 24 hours a day.

Business Strategy

Service strategy at Bank Mizrahi Tefahot is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of client needs. The Bank's branch network is a key component in creating that personal contact with the banker - and must be supported by a current, efficient digital technology environment.

The Bank sees importance in continuing to develop the household segment as part of the Bank's future activities. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the client base, mainly among mortgage clients, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in the segment during the reported period

Over the past year, several public moves were made, designed to encourage non-bank entities to enter the competition in the household segment and to increase competition in consumer credit. The key public move was the appointment of the Committee for Increased Competition in Common Financial Banking Services, in June 2015. In December 2015, the Committee issued interim recommendations which include: separating control of major banks from credit card companies; increased competition in the settlement market; new rules for issue and distribution of credit cards by banks; incentives for investment houses, institutional investors and companies related to institutional investors to offer retail credit to the public; completing the regulation for operation of non-bank financing companies, including companies operating a P2P platform, so that they may offer their services under supervision; creating a joint team from the Bank of Israel and the Ministry of Finance, to propose a detailed outline for deposit insurance; and allowing a supervised entity to conduct financial shopping on behalf of clients. The Bank is studying the Committee's interim recommendations.

Concurrently, in 2015, branch closing and teller position elimination at branches of some banks was on a growing trend.

On December 30, 2015, the Bank was informed it was awarded a tender issued by the State of Israel for management of deposit funds for foreign workers. The Bank is preparing to operate this deposit, with accrued balances as of the end of 2014, based on the official tender documents issued by the Ministry of Finance, amounting to NIS 267 million, in conformity with terms and conditions stated in the agreement.

For more information about developments in the banking sector, see chapter "The General Environment and Effect of External Factors on the Bank Group" above.

Analysis of operating results in the household segment

	For the year ended December 31, 2015					For the year ended December 31, 2014				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
Interest revenues, net:										
From outside operating segments	706	22	-	2,066	2,794	501	24	-	2,444	2,969
Inter-segment	429	(4)	-	(1,245)	(820)	617	(5)	-	(1,709)	(1,097)
Total interest revenues, net	1,135	18	-	821	1,974	1,118	19	-	735	1,872
Non-interest financing revenues	-	-	2	-	2	-	-	6	-	6
Commissions and other revenues	212	137	201	163	713	205	135	194	185	719
Total revenues	1,347	155	203	984	2,689	1,323	154	200	920	2,597
Expenses with respect to credit losses	42	-	-	10	52	88	-	-	6	94
Operating and other expenses										
From outside operating segments	1,480	23	73	300	1,876	1,449	24	71	285	1,829
Inter-segment	(111)	(2)	-	-	(113)	(112)	(3)	-	-	(115)
Total operating and other expenses	1,369	21	73	300	1,763	1,337	21	71	285	1,714
Pre-tax profit	(64)	134	130	674	874	(102)	133	129	629	789
Provision for taxes on profit	(24)	51	49	254	330	(38)	49	48	233	292
After-tax profit	(40)	83	81	420	544	(64)	84	81	396	497
Net profit (loss):										
Before attribution to non-controlling interest	(40)	83	81	420	544	(64)	84	81	396	497
Attributable to non-controlling interest	(39)	-	-	-	(39)	(31)	-	-	-	(31)
Attributable to shareholders of the banking corporation	(79)	83	81	420	505	(95)	84	81	396	466
Return on capital (net profit as % of average capital)					7.8%					8.3%
Average balance of assets	17,933	2,851	-	96,752	117,536	16,596	2,734	-	88,037	107,367
Average balance of liabilities	68,527	2,851	-	8	71,386	62,605	2,734	-	113	65,452
Average balance of risk assets	17,252	-	-	54,120	71,372	16,178	-	-	49,192	65,370
Average balance of securities	-	-	39,609	-	39,609	-	-	38,888	-	38,888
Average balance of loans to the public	17,913	2,851	-	96,373	117,137	16,588	2,734	-	88,032	107,354
Average balance of deposits from the public	68,519	-	-	-	68,519	62,518	-	-	-	62,518
Loans to the public (end balance)	18,828	3,246	-	100,949	123,023	17,407	3,055	-	91,581	112,043
Deposits from the public (end balance)	72,284	-	-	-	72,284	65,701	-	-	-	65,701
Average balance of other assets managed	2,101	-	-	6,658	8,759	1,447	-	-	8,805	10,252
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	914	18	-	788	1,720	800	19	-	686	1,505
Margin from activities of receiving deposits	218	-	-	-	218	313	-	-	-	313
Other	3	-	-	33	36	5	-	-	49	54
Total interest revenues, net	1,135	18	-	821	1,974	1,118	19	-	735	1,872

Contribution of the household segment to Group profit in 2015 amounted to NIS 505 million, compared to NIS 466 million in the corresponding period last year. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in 2015 amounted to NIS 420 million, compared to NIS 396 million in the corresponding period last year - an increase of 6.1%. Net interest revenues before expenses with respect to credit losses amounted to NIS 821 million, compared to NIS 735 million in the corresponding period last year, an increase of 11.7% - primarily due to an increase in mortgage business volume - reflected in an increase of NIS 8.3 billion in the average loan balance. Expenses with respect to credit losses increased by NIS 4 million compared to the corresponding period last year. This increase is due to the increase in group-based provision for housing, due to the significant increase of the loan portfolio. Commission and other revenues decreased by NIS 22 million, due to regulatory effects. For more information see chapter "Corporate governance" on the financial statements.

Operating and other expenses increased by 5.3% due to increased mortgage business.

Contribution of the household segment (excluding mortgages) in 2015 amounted to NIS 85 million, compared to NIS 70 million in the corresponding period last year - an increase of NIS 15 million. Interest revenues, net before expenses with respect to credit losses increased by NIS 16 million. This increase is due to the higher lending margins due to increased credit volume. Conversely, margin from receiving deposits decreased, due to the low interest rate environment. Commissions and other revenues increased by NIS 16 million, primarily due to clients' capital market operations. Operating expenses increased by 2.4% over the corresponding period last year. See also chapter "Profit and profitability" above. Operating and other expenses in the corresponding period were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Notes 1.C.1 and 1.C.2. to the financial statements.

Additional information about segment operations

Material legislation developments

In July 2014, the Knesset Finance Committee approved an amendment to the Banking Ordinance which governs payment for early repayment of housing loans. This amendment to the Ordinance became effective on February 22, 2015 and applies to all repayments as from said date.

The change to the ordinance reduces, in some cases, the capitalization commission compared to the previous situation. The key amendment to the Ordinance concerns the calculation of the capitalization commission, which is to be based on the difference between the lower of the loan interest rate or the "interest rate for calculation", as stated below, and the average interest rate (published by the Bank of Israel) known upon making the early repayment for the remaining term to maturity as of the date of early repayment. The interest rate for calculation is to be calculated as follows:

- Loans bearing fixed interest - the average interest rate for the loan term, as known upon loan origination.
- Loans bearing variable interest - the average interest rate for the interest update period as of the most recent interest update date.
- Loans not bearing variable interest where the interest rate has been changed after loan origination - the average interest rate known upon the change date for the remaining loan term as from said change date.

In December 2014, the Supervisor of Banks announced the "Fast track for refinancing directed loans", to be applied from January 1, 2015 to May 31, 2015. This campaign allows Ministry of Construction and Housing eligible borrowers who have obtained directed loans (as part of State assistance) at an interest rate of 4% or higher, to apply to the bank where their loan is managed for an improved interest rate, to be determined based on the average interest published by the Bank of Israel for the linked segment (for the remaining loan term). This campaign applies to all loans which meet the threshold criteria specified by the Bank of Israel (LTV ratio and loan in good standing) and is carried out by a lower-cost fast track procedure.

The Bank has joined this process. In 2015, the Ministry of Construction and Housing and the Supervisor of Banks announced the extension of this process through December 31, 2015. This process was concluded on December 31, 2015. For more information see Note 26.C.18.

On June 29, 2015, the Supervisor of Banks issued an amendment to the directive concerning debit cards, which concerns transition of the payment system in Israel to the EMV standard and promoting the use of immediate-debit cards and stored-value cards. The Bank is preparing to apply this amendment. For more information about this topic and about legislation relevant to this segment, see chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements.

Dependence on individual clients

The activities of the household segment are characterized by broad diversification of loans and deposits in the retail banking sector and of the loans portfolio among the hundreds of thousands of households that took out mortgages from the Bank over the years. Therefore, the loss of one client or another does not have a material effect on the overall activity of the segment.

Competition in the segment and changes there to

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank. See below regarding barriers to entry and exit.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

Over the past year, several public moves were made, designed to encourage non-bank entities to enter the competition in the household segment and to increase competition in consumer credit. The key public move was the appointment of the Committee for Increased Competition in Common Financial Banking Services, in June 2015. In December 2015, the Committee issued its interim recommendations.

Mortgages

Most of the mortgage activity in Israel is conducted through ten banks operating in this field. For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the loans portfolio. Based on Bank of Israel data, the Group's share of provision of housing loans (for residential purpose), out of Bank funds as well as loans guaranteed by the State, reached 35% at the end of 2015, compared to 34% at the end of 2014. The Bank's major competitors are Bank Leumi and Bank Hapoalim.

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients.

Cooperation agreements

The Bank entered into a series of agreements with several companies that issue credit cards, principally Isracard Ltd. (since 1979) and Israel Credit Cards Ltd. (since 1995), that arrange the relations between the parties. Pursuant to the agreements, the Bank will take action to distribute the credit cards issued by these companies to their clients. The agreements prescribe mechanisms for calculating the amounts to which the Bank is entitled for the activities of its clients in the cards issued, including based on the volume of usage by the Bank's clients of the credit cards of these companies. The agreements specify the manner in which the credit cards are to be used, the division of liability between the credit card companies and the Bank. Pursuant to the agreements, the Bank is entitled to appoint an overseer on its behalf, who will participate in meetings of the Board of Directors (including meetings of the Board of Directors' subcommittees, except for the audit committee) of Isracard.

On March 4, 2015, the Bank and Leumi Card Ltd. signed an agreement, allowing the Bank to offer its clients a bank credit card issued by Leumi Card. The first credit card pursuant to this agreement was issued in late 2015.

For more information about the agreement signed with CAL Group, including an arrangement whereby Bank-branded credit cards have been issued - see Note 26.C.13 to the financial statements.

Private Banking Segment

Highlights of segment attributes

Private banking is the concept of banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking clients at the Bank are primarily individual clients with liquid assets and security investments over NIS 2.5 million, and corporations with liquid assets in excess of NIS 8 million.

Financial consulting, which is part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.

This segment has potential for expanding business relationships with clients from a high socio-economic standing, who demand personal, professional service which is highly available.

Goods and services

The products and services offered to clients of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment’s clients, in addition to ordinary banking services, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Credit cards** - the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies.

- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.

Major markets

The markets addressed by this segment are clients with high financial wealth (both Israelis and foreign residents).

Business Strategy

The Bank plans to continue to develop its global private banking network, based on centralized management, centers of professional support and cooperation between Bank affiliates and units in Israel and throughout the world, with strict compliance with local and global regulation.

Continuing to provide professional, reliable service and to maintain close relationships with clients would allow the Bank to expand its business with segment clients.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in the segment during the reported period

Over the past year there were no material market developments nor material changes in client attributes in the private banking segment.

Analysis of operating results of the private banking segment

	For the year ended December 31, 2015			For the year ended December 31, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	9	-	9	1	-	1
Inter-segment	55	-	55	62	-	62
Total interest revenues, net	64	-	64	63	-	63
Non-interest financing revenues	1	-	1	1	-	1
Commissions and other revenues	45	21	66	41	21	62
Total revenues	110	21	131	105	21	126
Expenses with respect to credit losses	3	-	3	3	-	3
Operating and other expenses						
From outside operating segments	77	1	78	79	1	80
nter-segment	3	-	3	4	-	4
Total operating and other expenses	80	1	81	83	1	84
Pre-tax profit	27	20	47	19	20	39
Provision for taxes on profit	10	8	18	7	7	14
Net profit attributable to shareholders of the banking corporation	17	12	29	12	13	25
Return on capital (net profit as % of average capital)			33.3%			33.1%
Average balance of assets	1,871	-	1,871	2,143	-	2,143
Average balance of liabilities	8,937	-	8,937	8,592	-	8,592
Average balance of risk assets	916	-	916	840	-	840
Average balance of securities	-	3,043	3,043	-	2,630	2,630
Average balance of loans to the public	1,018	-	1,018	955	-	955
Average balance of deposits from the public	8,356	-	8,356	7,973	-	7,973
Loans to the public, net (end balance)	934	-	934	1,051	-	1,051
Deposits from the public (end balance)	8,512	-	8,512	9,090	-	9,090
Average balance of other assets managed	6	-	6	6	-	6
Margin from credit granting operations	24	-	24	24	-	24
Margin from activities of receiving deposits	40	-	40	39	-	39
Other	-	-	-	-	-	-
Total interest revenues, net	64	-	64	63	-	63

Contribution of the private banking segment to Group profit in 2015 amounted to NIS 29 million, compared to NIS 25 million in the corresponding period last year - an increase of NIS 4 million.

Below are key factors affecting the change in segment contribution:

Interest revenues, net before expenses with respect to credit losses increased by NIS 1 million over the corresponding period last year. Commission and other revenues amounted to NIS 66 million in 2015, compared with NIS 62 million in the corresponding period last year - an increase primarily due to increase in client activity in foreign currency. Expenses with respect to credit losses were unchanged compared to the corresponding period last year. Operating and other expenses decreased by NIS 3 million compared to the corresponding period last year. Operating expenses in this segment - and in general - are impacted, *inter alia*, by business volume. The decrease in operating expenses is due to a decrease in attribution of indirect expenses to this segment.

Additional information about segment operations

Risk associated with overseas operations

For more information about compliance and regulatory risk, cross-border risk and other risk associated with overseas operations, see chapter "Risk overview" above.

Material legislation developments

A description of the normative framework applicable to the Bank, including to the Private Banking segment, is provided under the chapter "Legislation and Supervisory Regulation of Bank Group Operations" in the chapter "Corporate governance" on the financial statements.

Dependence on individual clients

This segment serves clients with high financial wealth. Clients served by this segment are highly diversified, there are no material dependencies or relations between clients and the Bank, so that the private banking segment is not dependent on any specific group of clients or on individual clients, whose loss may materially impact its operations.

Competition in the segment and changes there to

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

Small Business Segment

Highlights of segment attributes

The small business segment operates within the retail division, and mainly serves small companies and small business clients with relatively low turnover and total indebtedness of up to NIS 6 million. This segment is characterized by large client diversification. In view of the fact that the availability of data and their quality regarding the clients of this segment is relatively lower than for major business clients, there is a need for professional service and appropriate means of control, in order to assess the quality of the client for the purpose of issuing credit. Additionally, this segment is characterized by a high percentage of collateral required from the clients to ensure credit repayment.

Goods and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products.

Banking and finance

Within the scope of this product, the Bank provides the following services:

- Loans for various purposes: Business loans, loans against the discounting of checking, credit cards etc.
- Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: on line Electronic Data Interchange (EDI).
- Investments: Diverse operations related to investments, such as deposits of various types and for various terms.
- Management of checking account facilities: The facilities are determined according to the client's needs, turnover and judgment of the Bank.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment clients a range of credit cards issued by Israeli credit card companies.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

The Bank's business strategy consists of expansion of its operations in the small business segment, while constantly evaluating risk at the individual client level and for the entire sector and industry. The critical success factors in this operating segment are personal service and providing banking solutions for the range of the client’s financial needs.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.
- Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.
- Expanded activity in State fund for small and medium businesses.
- Expand geographic deployment of services provided to segment clients.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including GDP growth and impact of macroeconomic and geopolitical conditions, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, technological developments and issues of human resources.

Developments in the segment during the reported period

Growing competition among banks in the small business segment continued to accelerate over the past year. In addition, public actions were taken to encourage entry of non-bank entities into the market for credit to small business.

On January 17, 2016, after the balance sheet date, the Ministry of Finance announced that the financial partnership of Bank Mizrahi Tefahot and others was selected as a winning bidder for the tender to provide loans to small and medium businesses, guaranteed by the State. The contracting period with the State is four years, with optional extension by a further six years. Loans under this tender are intended for small and medium business in various tracks: general track, new business, exporters and industry investment track. The Bank is preparing to provide the required services for this tender.

During the year, there was no significant change in attributes of segment clients - this segment is highly diversified as for clients, with strong collateral requirements from clients to secure repayment of credit.

Analysis of operating results of the Small Business Segment

	For the year ended December 31, 2015				For the year ended December 31, 2014			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	523	8	-	531	487	8	-	495
Inter-segment	24	(2)	-	22	24	(2)	-	22
Total interest revenues, net	547	6	-	553	511	6	-	517
Non-interest financing revenues	1	-	1	2	-	-	-	-
Commissions and other revenues	214	18	16	248	201	17	15	233
Total revenues	762	24	17	803	712	23	15	750
Expenses with respect to credit losses	104	-	-	104	98	-	-	98
Operating and other expenses								
From outside operating segments	543	5	6	554	519	4	5	528
Inter-segment	(56)	-	-	(56)	(54)	-	-	(54)
Total operating and other expenses	487	5	6	498	465	4	5	474
Pre-tax profit	171	19	11	201	149	19	10	178
Provision for taxes on profit	65	7	4	76	55	7	4	66
Net profit attributable to shareholders of the banking corporation	106	12	7	125	94	12	6	112
Return on capital (net profit as % of average capital)				19.6%				21.7%
Average balance of assets	9,150	418	-	9,568	7,909	378	-	8,287
Average balance of liabilities	12,822	418	-	13,240	10,276	378	-	10,654
Average balance of risk assets	6,700	-	-	6,700	5,734	-	-	5,734
Average balance of securities	-	-	15,169	15,169	-	-	11,443	11,443
Average balance of loans to the public	8,922	418	-	9,340	7,888	378	-	8,266
Average balance of deposits from the public	12,819	-	-	12,819	10,233	-	-	10,233
Loans to the public, net (end balance)	9,426	445	-	9,871	8,611	407	-	9,018
Deposits from the public (end balance)	13,903	-	-	13,903	11,068	-	-	11,068
Average balance of other assets managed	143	-	-	143	167	-	-	167
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	505	-	-	505	443	-	-	443
Margin from activities of receiving deposits	34	-	-	34	47	-	-	47
Other	8	6	-	14	21	6	-	27
Total interest revenues, net	547	6	-	553	511	6	-	517

Contribution of the small business segment to Group profit in 2015 amounted to NIS 125 million, compared to NIS 112 million in the corresponding period last year - an increase of 11.6%. Below are key factors affecting the change in segment contribution: Net interest revenues amounted to NIS 553 million, compared to NIS 517 million in the corresponding period last year, an increase of 7.0% – primarily due to an increase in credit volume, along with lower interest spreads from deposits due to the low interest rate environment. Commissions and other revenues increased by

NIS 15 million, due to increased business volume in this segment. Expenses with respect to credit losses amounted to NIS 104 million, compared to NIS 98 million in the corresponding period last year - an increase of 6.1%. Operating expenses increased by 5.1% due to increased volume of loans and deposits, as noted above.

Additional information about segment operations

Material legislation

For more information about legislation relevant to this segment, and for description of the normative framework applicable to the Bank - see chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements.

Dependence on individual clients

Operations of the small business segment are typically highly diversified in terms of retail credit and deposits. Therefore loss of any client does not materially impact segment operations, hence the segment is not dependent on any individual client nor on any small number of clients.

Competition in the segment and changes there to

Until recently, competition in the small business segment was primarily within the banking system. Over the past year, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) by including institutional investors in a new tender issued by the State Fund for Small and Medium Business. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.

Commercial Banking Segment

Highlights of segment attributes

The Commercial Banking segment primarily includes medium-sized private and public companies (Middle Market), having turnover between NIS 30 - 120 million, and total indebtedness between NIS 6 - 25 million.
Segment clients are served under responsibility of the Bank's Business Division.
Clients in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

Goods and services

Segment clients are offered customized products and services, primarily in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, including for working capital purposes: foreign trade services – importing, exporting, documentary credit; short and intermediate-term loans, bank guarantees, etc.; transactions in foreign currency, including trading in derivatives, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using three business hubs operating under the Business Division, as well as business centers and Bank branches throughout Israel.

Operations in this segment include development of marketing and business operations based on understanding client needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for client needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor clients' financial robustness.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the client base and growth in the activities of the commercial banking segment.

The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current clients and to clients for which the Bank is a secondary bank.

Developments in the segment during the reported period

In 2015 there was no material change to markets and to segment attributes.

Analysis of operating results of the commercial banking segment

	For the year ended December 31, 2015				For the year ended December 31, 2014			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	166	-	-	166	173	-	-	173
Inter-segment	(1)	-	-	(1)	(12)	-	-	(12)
Total interest revenues, net	165	-	-	165	161	-	-	161
Non-interest financing revenues	-	-	-	-	-	-	1	1
Commissions and other revenues	45	2	5	52	38	2	5	45
Total revenues	210	2	5	217	199	2	6	207
Expenses with respect to credit losses	16	-	-	16	(10)	-	-	(10)
Operating and other expenses								
From outside operating segments	51	-	1	52	54	-	1	55
Inter-segment	60	-	-	60	59	-	-	59
Total operating and other expenses	111	-	1	112	113	-	1	114
Pre-tax profit	83	2	4	89	96	2	5	103
Provision for taxes on profit	31	1	2	34	35	1	2	38
Net profit attributable to shareholders of the banking corporation	52	1	2	55	61	1	3	65
Return on capital (net profit as % of average capital)				12.1%				15.4%
Average balance of assets	4,481	50	-	4,530	4,350	46	-	4,396
Average balance of liabilities	5,131	50	-	5,181	4,068	46	-	4,114
Average balance of risk assets	4,783	-	-	4,783	4,700	-	-	4,700
Average balance of securities	-	-	4,134	4,134	-	-	4,445	4,445
Average balance of loans to the public	4,327	50	-	4,377	4,319	46	-	4,365
Average balance of deposits from the public	5,126	-	-	5,126	4,046	-	-	4,046
Loans to the public, net (end balance)	4,423	61	-	4,484	4,186	54	-	4,240
Deposits from the public (end balance)	5,345	-	-	5,345	4,546	-	-	4,546
Average balance of other assets managed	276	-	-	276	293	-	-	293
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	153	-	-	153	145	-	-	145
Margin from activities of receiving deposits	9	-	-	9	13	-	-	13
Other	3	-	-	3	3	-	-	3
Total interest revenues, net	165	-	-	165	161	-	-	161

Contribution of the commercial banking segment to Group profit in 2015 amounted to NIS 55 million, compared to NIS 65 million in the corresponding period last year - an increase of NIS 10 million. Below are key factors affecting the change in segment contribution: Interest revenues, net, amounted to NIS 165 million, a NIS 4 million increase over the corresponding period last year, due to increase in operations. Commission and other revenues increased by NIS 7 million compared to the corresponding period last year, due to increase in operations. Expenses with respect to credit losses in the current period amounted to an expense of NIS 16 million, compared to a decrease in expense of NIS 10 million in the corresponding period last year. The expense in the current period is due to increase in the group provision and to classification of a few clients' debt as problematic debt. The decrease in expense in the corresponding period is attributed to collection from a number of single clients. Total operating expenses were essentially unchanged.

Additional information about segment operations

Material legislation

A description of the normative framework applicable to the Bank, is provided under the chapter "Legislation and Supervision of Bank Group Operations" in the chapter "Corporate governance" on the financial statements.

Dependence on individual clients

This segment has a large number of clients, diversified by geography and by economic sector. The market share of any single client is relatively small and therefore, this segment is not dependent on any significant single client.

Competition in the segment and changes there to

Segment clients conduct their financial activity primarily within the banking system, so that competition for this client segment is significant. Non-banking finance providers have a smaller share of this segment, mostly in the factoring business and in credit card companies.

The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for client needs, maintaining a personal relationship and providing fast, efficient service.

Due to differences among banks in segment definitions in 2015, the Bank is unable to estimate its market share of this segment.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Business Banking Segment

Highlights of segment attributes

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with total indebtedness exceeding NIS 25 million per client and turnover in excess of NIS 120 million or liquid assets exceeding NIS 40 million. This segment also includes the banking service group for companies in the construction and real estate sector - even if they have medium indebtedness levels. The Bank's Business Division is in charge of serving material clients in this segment.

The Business Division also operates the Bank's Syndication Department.

In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in innovative financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Segment clients are large business clients in various economic sectors. Some of these companies do business both in Israel and overseas. Clients of this segment use most banking areas, including credit, savings, trading room, foreign trade etc.

Goods and services

Segment clients are offered a range of banking and finance products, including: Different types of credit – on call, short-term, intermediate-term and long-term loans, different types of guarantees; foreign trade activity – importing, exporting, documentary credit; financing through participation in syndicates, financing of infrastructure products, mergers and acquisitions; trading in derivatives and factoring.

Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products:

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to clients of the real estate sector are:

Credit for construction - in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.

Financing for construction projects - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the

Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.

Purchase groups - a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.
The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Arranging and leading syndication – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions - to help turn the Bank into a major player in the business credit market. To this end, the Bank has established a department specialized in leading and participating in syndication transactions. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and client managers in the Business Banking Division, concurrent with the Bank's branches and business centers.
In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, divided into departments and teams having specific industry specialization. The teams work in co-operation with professional Bank departments involved in factoring, foreign trade, capital market, trading room operations etc. - in order to provide a comprehensive solution for client needs.
Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the client's banking needs. This is done while by a variety of innovative financial products and solutions.
These operations are backed by a strong capacity for analysis of client needs and their financial standing, as well as identifying risk associated with client relationships due, *inter alia*, to anticipated changes in the economy and in the client sector.

Business Strategy

The Bank's business strategy in the Business Banking segment is directed toward maximizing the economic potential of the capital, based on the existing customers, by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

- Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.
- Segment business clients by size, sector of operation and other attributes in order to optimally specify their business needs and to provide an appropriate, professional solution.
- Given the legal complexity of transactions in recent years, *inter alia* in combination projects and in urban renewal projects (evacuation-construction schemes and National Zoning Plan 38), these require custom legal specialization.

- Emphasis on profitability and return on uses, and transition to measuring return and risk pursuant to rules stipulated by Basel II recommendations on management of credit risk and operational risk.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit is relatively low, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio. Credit applications are reviewed most diligently, including analysis of exposure under different scenarios.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in the segment during the reported period

In 2015, housing prices continued to rise, along with a record number of transactions due to a sharp increase in apartment buying by young couples in the first half of 2015, who returned to the market after waiting for the "Zero VAT program" which was not implemented and a significant increase in transaction volume for investors, due to higher taxation as from June 2015.

During the year, Government intervention in this sector was apparent - designed to reduce demand from investors and to increase supply:

In June, the purchase tax for investors was raised to 8%, the Government focused on the "Buyer price" program, which offers a significant discount to young couples who do not own housing and who meet the criteria for buying an apartment; the target is to market 70 thousand residential units by end of 2016, with the great majority of tenders to be issued by ILA being under this program. Through 2015, actual tenders awarded to developers under the "Buyer price" program covered 4,500 residential units across Israel.

The first tender under this program was issued in October 2015, but the program had no material effect on market supply and demand in 2015.

The Bank is monitoring changes and trends in the real estate market and customizes financial solutions for Bank clients, ensuring the required credit quality.

Analysis of operating results of the business banking segment

	For the year ended December 31, 2015				For the year ended December 31, 2014			
	Banking and finance [(1)]	Capital market	Construction and real estate	Total	Banking and finance [(1)]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	294	-	323	617	164	-	345	509
Inter-segment	181	-	(55)	126	324	-	(89)	235
Total interest revenues, net	475	-	268	743	488	-	256	744
Non-interest financing revenues	22	10	-	32	7	11	-	18
Commissions and other revenues	86	24	136	246	84	22	135	241
Total revenues	583	34	404	1,021	579	33	391	1,003
Expenses with respect to credit losses	24	-	14	38	(75)	-	72	(3)
Operating and other expenses								
From outside operating segments	195	8	32	235	182	7	31	220
Inter-segment	73	-	17	90	74	-	15	89
Total operating and other expenses	268	8	49	325	256	7	46	309
Pre-tax profit	291	26	341	658	398	26	273	697
Provision for taxes on profit	109	10	128	247	147	10	101	258
Net profit (loss) attributable to share holders of the banking corporation	182	16	213	411	251	16	172	439
Return on capital (net profit as % of average capital)				11.4%				12.8%
Average balance of assets	18,447	-	8,075	26,522	17,465	-	8,201	25,666
Average balance of liabilities	43,400	-	3,412	46,812	43,389	-	2,613	46,002
Average balance of risk assets	17,871	-	20,186	38,057	18,415	-	19,747	38,162
Average balance of securities	-	80,326	-	80,326	-	70,016	-	70,016
Average balance of loans to the public	14,181	-	7,790	21,971	15,464	-	8,006	23,470
Average balance of deposits from the public	42,958	-	3,386	46,344	43,348	-	2,513	45,861
Loans to the public, net (end balance)	13,522	-	7,370	20,892	13,414	-	7,803	21,217
Deposits from the public (end balance)	46,119	-	4,697	50,816	44,275	-	2,842	47,117
Average balance of other assets managed	1,313	-	398	1,711	590	-	41	631
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	392	-	257	649	388	-	227	615
Margin from activities of receiving deposits	62	-	6	68	85	-	10	95
Other	21	-	5	26	15	-	19	34
Total interest revenues, net	475	-	268	743	488	-	256	744

(1) Includes operating results with respect to credit cards, whose amount is not material.

Contribution of the business banking segment to Group profit in 2015 amounted to NIS 411 million, compared to NIS 439 million in the corresponding period last year, a decrease of NIS 28 million.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sub-segment increased by NIS 41 million, or 23.8%, in 2015 compared to the corresponding period last year. Interest revenues, net amounted to NIS 268 million, compared to NIS 256 million in the corresponding period last year - an increase of 4.7%, primarily due to increase in lending spreads. Commissions and other revenues were essentially unchanged from the year-ago period. Expenses with respect to credit losses amounted to expense of NIS 14 million, compared to an unusual expense of NIS 72 million in the corresponding period last year, attributed to a few individual clients.

Contribution of business banking excluding construction and real estate decreased by NIS 69 million compared to the corresponding period last year. Total financing revenues (interest and non-interest) attributed to business banking excluding construction and real estate increased by NIS 1 million over the year-ago period, due *inter alia* to increase in credit margins along with lower deposit margins due to the low interest environment. Expenses with respect to credit losses attributed to business banking (excluding construction and real estate) amounted to NIS 24 million, compared to lower expenses by NIS 75 million in the corresponding period last year, primarily due to significant collection from several business clients, which were written off in previous periods. Commissions and other revenues increased by NIS 4 million compared to the corresponding period last year, attributed to increased commissions from financing business and to commissions from clients' capital market activity.

Total operating and other expenses attributed to business banking, excluding construction and real estate, increased by 4.9% compared to the corresponding period last year. The increase is attributed to the segment share of increased payroll expenses in the period. See also chapter Profit and Profitability above. Operating and other expenses in the corresponding period were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Notes 1.C.1 and 1.C.2. to the financial statements.

Additional information about segment operations

Material legislation developments

A description of the normative framework applicable to the Bank, is provided under the chapter "Legislation and Supervision of Bank Group Operations" in the chapter "Corporate governance" on the financial statements. Below we describe some of this legislation and other arrangements, which impact operations of the Business Banking segment:

Financing of equity transactions – Due to the complex nature and risk associated with financing of equity transactions (buy-back, acquisition of another corporation, equity distribution), these operations were regulated by Regulation 327 "Management of leveraged loans". This regulation limits the balance of loans given to acquire the means of control in corporations, where the percentage of the financing for this acquisition exceeds 50% of the acquisition cost, at a percentage not to exceed 70% of the Bank's capital. Additionally, the regulation limits the balance of credit given by a banking corporation for an acquisition of the means of control of another banking corporation or a banking holding company, when the percentage of the financing of such an acquisition exceeds 30% of their acquisition cost, to the lower of 5% of the lending bank's capital or 5% of the capital of the acquired bank, or another rate that the Supervisor prescribes for a bank corporation with capital below NIS 500 million. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

The regulation also lists the Supervisor of Banks' expectations with regard to appropriate and prudent risk management for leveraged loan operations.

The Bank has incorporated in its credit policy how to identify leveraged credit and has specified rules for approval of such credit, as well as control and reporting processes for such credit.

Industry limit – The provisions of Proper Conduct of Banking Business Directive No. 315 ("Supplementary Provision for Doubtful Debts") stipulate that when all the debts ("debt" –as defined in the regulation, after all the deductions permitted by the regulation are deducted from it) of a certain industry to the bank corporation (on an unconsolidated basis) exceeds 20% of the total debts of the public to the bank corporation, this excess will be considered as debt in deviation, for which the bank must make a supplementary provision for doubtful debts. This limit is evaluated on unconsolidated basis. The amendment to a directive issued by the Supervisor of Banks in September 2009 stipulated that, with regard to the real estate sector, the Bank may choose to reach exposure of up to 22%, provided that exposure to infrastructure projects in the real estate sector shall not exceed 18%. This limitation is not effective with respect to the Bank's activity.

Limits on indebtedness of a borrower and a group of borrowers – In accordance with Proper Conduct of Banking Business Directive No. 313 ("Limitations on Debts of a Borrower and a Group of Borrowers"), a limitation has been imposed on the Bank, whereby the Bank is permitted to extend credit to a "borrower" or a "group of borrowers", as defined in the directive, after certain amounts provided in the regulation were deducted from the debts, not to exceed 15% or 25% of the Bank's capital, respectively (Tier I capital as defined in Capital Adequacy Directives). The Regulation further stipulates that total indebtedness of borrowers and groups of borrowers at the Bank, whose net indebtedness to the Bank exceeds 10% of the Bank's equity, may not exceed 120% of said equity.

Securing home buyers – the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974 (“the Sale Act” or “the Act") prohibits the apartment seller (“seller” and “apartment” as defined in the Act) to receive proceeds exceeding 7% of the price, unless the buyer is secured through one of the alternatives provided in the Act. One of the alternatives provided in the Act to secure apartment buyers is the furnishing of a bank guarantee under the Sale Act. The use of this alternative is very prevalent and accepted by companies engaged in the construction industry and contributes to the growth in the Bank’s off-balance sheet credit risk.

Financial assistance - Proper Conduct of Banking Business Regulation 326 on Financial Assistance stipulates that a banking corporation shall not finance a construction project using the financial assistance method, unless a book of payment vouchers is produced and provided to the construction contractor for each apartment to be sold in the project. This is designed to secure funds of apartment buyers in project financed using the financial assistance method, and to ensure concentration of resources designated for project construction, and in particular proceeds from sale of apartments, in the project account designated for this purpose. These payment vouchers will be used for all payments to be made by the apartment buyer to the developer for the cost of the apartment. The directive specifies the details to be included on each payment voucher. The directive required the banking corporation to issue a guarantee to the apartment buyer for any amount paid by a payment voucher, or to ensure provision of other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the directive provides arrangements for providing information to buyers with regard to matching of the project account to a specific project, and determines the details to be included in the assistance agreement with the developer in order to allow for implementation of the voucher system.

This directive applies to financial assistance agreements signed on June 1, 2008 or later.

Dependence on individual clients

There is no dependence on individual client or a few individual clients in the business banking segment.

Competition in the segment and changes there to

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such clients, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate clients has seen non-banking entities enter into this area, as well. These entities have started providing assistance to projects on their own, without cooperation with any banks.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients’ needs, readily available and fast service, and maintaining close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Due to differences among banks in segment definitions, the Bank is unable to estimate its market share of this segment. This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Financial Management Segment

Highlights of segment attributes

Operations in the Financial Management segment cover several key areas: Management of Bank assets and liabilities, management of the debenture portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets. This is in line with management view of how these operations should be managed.

The Financial Management segment operates in Israel and overseas. Operations of this segment are managed by the Finance Division. Business in this segment is subject to the relevant risk management policy and to restrictions imposed by the Board of Directors and by management on various exposure levels.

The financial management segment functions as an activity that "clears" all of the Bank's trading activity, and leaves for those executing transactions a fixed margin, known in advance, that is calculated assuming full coverage of the transaction. The exposure to market risk remains in the financial management segment. The prices at which the segment "buys" and "sells" sources and uses vis-à-vis the Bank's other units, for the purpose of their carrying out regular business activities, are the transfer prices (“shadow prices”) of the Bank that are determined regularly by the financial management segment.

Business Strategy

Segment objectives are active management of exposure to market risk and of the debenture portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

The main activity in the debenture portfolio is efficient management of Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Conduct of Banking Business Directive no. 342 and Proper Conduct of Banking Business Directive no. 221 – liquidity coverage ratio. For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risk overview" below and the Detailed Risk Management Report on the Bank website. Threshold criteria were also prescribed for nostro debenture activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase the liquidity there of. Debenture operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies - with the bulk of these operations involving risk exposure to the State of Israel.

As for management of market risk exposure, the Bank actively manages the negotiable portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. See chapter on Risks Management for details on the risk limitations and the manner in which the exposure to market risks are managed.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits in different linkage segments and for different terms, and by issuing subordinated notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" above.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" above.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivative instruments. The trading room also serves major clients trading in securities in stock exchanges in Israel and overseas. The Bank constantly strives to expand its operations in this area by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial robustness may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risk Overview" below.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Analysis of operating results of the financial management segment

	For the year ended December 31, 2015			For the year ended December 31, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(583)	-	(583)	(772)	-	(772)
Inter-segment	618	-	618	790	-	790
Total interest revenues, net	35	-	35	18	-	18
Non-interest financing revenues	309	12	321	140	7	147
Commissions and other revenues	128	47	175	91	48	139
Total revenues	472	59	531	249	55	304
Expenses with respect to credit losses	(2)	-	(2)	(9)	-	(9)
Operating and other expenses						
From outside operating segments	425	6	431	321	6	327
Inter-segment	16	-	16	17	-	17
Total operating and other expenses	441	6	447	338	6	344
Pre-tax profit (loss)	33	53	86	(80)	49	(31)
Provision for taxes on profit (loss)	36	20	56	(28)	17	(11)
After-tax profit (loss)	(3)	33	30	(52)	32	(20)
Share in net profits of associates, after tax	-	-	-	5	-	5
Net profit (loss):						
Before attribution to non-controlling interest	(3)	33	30	(47)	32	(15)
Attributable to non-controlling interest	(21)	-	(21)	-	-	-
Attributable to shareholders of the banking corporation	(24)	33	9	(47)	32	(15)
Return on capital (net profit as % of average capital)			68.8%			-
Average balance of assets	41,781	-	41,781	39,959	-	39,959
Of which: Investments in associates	36	-	36	52	-	52
Average balance of liabilities	39,326	-	39,326	43,358	-	43,358
Average balance of risk assets	5,352	-	5,352	5,245	-	5,245
Average balance of provident and mutual fund assets	94,174	-	94,174	87,171	-	87,171
Average balance of securities	-	82,658	82,658	-	77,684	77,684
Average balance of deposits from the public	13,067	-	13,067	16,241	-	16,241
Deposits from the public (end balance)	11,520	-	11,520	14,857	-	14,857
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from activities of receiving deposits	-	-	-	-	-	-
Other	35	-	35	18	-	18
Total interest revenues, net	35	-	35	18	-	18

Contribution of the financial management segment to Group profit in 2015 amounted to a profit of NIS 9 million, compared to a loss of NIS 15 million in the corresponding period last year. Below are key factors affecting the change in segment contribution: Total financing revenues (net interest revenues and non-interest financing revenues) increased by NIS 191 million, primarily due to lower spreads, the effect of fair value and other effects as well as realized debentures. For further analysis of current financing operations, see analysis of evolution of financing revenues from current operations in chapter "Profit and profitability" above.

Expenses with respect to credit losses amounted to a decrease in expense of NIS 2 million, compared to a decrease in expense of NIS 9 million in the corresponding period last year. Commission and other revenues increased by NIS 36 million compared to the corresponding period last year. Other revenues in this segment include the effect of the Bank's operating results in conjunction with asset reorganization and improvements to the branch network. Operating and other expenses increased by NIS 103 million. The increase in operating and other expenses includes: An increase in payroll and associated expenses, compared to the corresponding period last year, and expenses for external expert services with regard to the US DOJ inquiry. Operating and other expenses in the corresponding period were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Notes 1.C.1 and 1.C.2. to the financial statements. Tax expenses in 2015 include an increase in deferred tax expenses with respect to the decrease in profit tax rate and to disallowed expenses for tax purposes.

Additional information about segment operations

The Bank's activities in the financial management segment require that the Bank allot capital. Capital requirements with regard to market risk, starting on December 31, 2009, is in accordance with Proper Conduct of Banking Business Regulation no. 208 (Basel II, Pillar 1), which refers, inter alia, to interest rate risk in the negotiable portfolio, which is monitored using the standard model. Capital allocation with regard to interest rate risk in the Bank portfolio is required in conjunction with Basel II, Pillar 2. The Bank manages this risk in terms of erosion of economic capital, under different scenarios of changes to interest rates.

Additional information about operating segments

Product operations

The following is the composition of the contribution of credit card operations by major operating segments in the Bank Group (NIS in millions):

	For the year ended December 31, 2015			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	18	6	-	24
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	137	18	2	157
Total revenues	155	24	2	181
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	21	5	-	26
Pre-tax profit	134	19	2	155
Provision for taxes on profit	51	7	1	59
Net profit	83	12	1	96

	For the year ended December 31, 2014			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	19	6	-	25
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	135	17	2	154
Total revenues	154	23	2	179
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	21	4	-	25
Pre-tax profit	133	19	2	154
Provision for taxes on profit	49	7	1	57
Net profit	84	12	1	97

The following is the composition of the contribution of capital market operations by major operating segments of the Bank Group (NIS in millions):

	For the year ended December 31, 2015						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	1	-	10	12	25
Commissions and other revenues	201	21	16	5	24	47	314
Total revenues	203	21	17	5	34	59	339
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	73	1	6	1	8	6	95
Pre-tax profit	130	20	11	4	26	53	244
Provision for taxes on profit	49	8	4	2	10	20	93
Net profit	81	12	7	2	16	33	151

	For the year ended December 31, 2014						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	6	-	-	1	11	7	25
Commissions and other revenues	194	21	15	5	22	48	305
Total revenues	200	21	15	6	33	55	330
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	71	1	5	1	7	6	91
Pre-tax profit	129	20	10	5	26	49	239
Provision for taxes on profit	48	7	4	2	10	17	88
Net profit	81	13	6	3	16	32	151

International operations

Below are details of the contribution of international operations to the various operating segments of the Bank Group (NIS in millions):

	For the year ended December 31, 2015				
	Households	Private banking	Business banking	Financial management	Total
Interest revenues, net	5	55	69	29	158
Non-interest financing revenues	-	1	4	1	6
Commissions and other revenues	1	57	8	2	68
Total revenues	6	113	81	32	232
Expenses with respect to credit losses	-	-	-	-	-
Operating and other expenses	3	69	45	7	124
Pre-tax profit	3	44	36	25	108
Provision for taxes on profit	1	17	14	9	41
Net profit	2	27	22	16	67

	For the year ended December 31, 2014				
	Households	Private banking	Business banking	Financial management	Total
Interest revenues, net	5	53	54	27	139
Non-interest financing revenues	-	-	2	(5)	(3)
Commissions and other revenues	1	50	7	2	60
Total revenues	6	103	63	24	196
Expenses with respect to credit losses	-	4	-	-	4
Operating and other expenses	3	68	40	7	118
Pre-tax profit	3	31	23	17	74
Provision for taxes on profit	1	12	9	6	28
Net profit	2	19	14	11	46

Supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directive concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is determined by the turnover volume for clients, as follows. The Bank of Israel also issued a Q&A file with clarifications about implementation of the directive, referring *inter alia* to difficulty in obtaining information about revenues of business clients and stipulating that, when the Bank has no information about revenues of a business client who has no indebtedness or a small indebtedness to the bank (including credit facility), the bank may classify them under the relevant supervisory operating segment based on the number of employees or total assets on the balance sheet of the business - all as set forth in the Q&A file. If this information is also not available to the Bank, then the Bank may classify the client based on total financial assets of the client with the bank - all as stated in the Q&A file. In conformity with transitional provisions in the Q&A file, the bank may also apply the foregoing to business clients with indebtedness amounting up to NIS 300 thousand. in 2017 - up to NIS 80 thousand.

The supervisory operating segments, according to the Reporting Directives, are:

- Households – individual, other than private banking.
- Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.
- Small and micro business – businesses with turnover amounting up to NIS 50 million.
- Medium business – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.
- Large business – businesses with turnover higher than NIS 250 million
- Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.
- Financial management – includes trading operations, asset and liability management and non-banking investments.

Separate disclosure for each operation would be required as from quarterly and annual financial statements for 2016. At this stage, the Bank reviews the materiality of the differences between the Supervisory Segments approach and the management approach. The Bank is also reviewing certain optional adjustments to management approach in this context.

According to transitional provisions for implementation of this directive, the financial statements for 2015 disclosure is provided about balance sheet data for supervisory operating segments.

Full disclosure in conformity with the Directive should be provided in quarterly and annual financial statements for 2016.

Below is summary data for supervisory operating segments as of December 31, 2015:

Supervisory operating segments

	Operations in Israel								Operations overseas				Total
	Households	Private banking	Small and micro business	Medium business	Large business	Institutional investors	Financial Management	Total – operations in Israel	Private individuals	Business operations	Other segment	Total - operations overseas	
Loans to the public, net	122,878	68	13,589	5,165	12,402	2,025	-	156,127	545	2,532	-	3,077	159,204
Impaired debts	105	-	317	24	363	1	-	810	2	5	-	7	817
Debt in arrears 90 days or longer	974	-	38	-	-	-	-	1,012	-	-	-	-	1,012
Deposits from the public	66,643	10,244	15,220	5,365	24,933	35,935	-	158,340	840	3,200	-	4,040	162,380
Risk assets	73,829	31	10,858	7,207	25,084	3,388	5,568	125,965	405	3,116	-	3,521	129,486

Individuals - households and private banking - operations in Israel, consolidated

	Household Segment				Private Banking Segment				
	Housing loans	Credit cards	Other	Total - Households	Housing loans	Credit cards	Other	Total - Households	Total
Loans to the public, net	106,802	3,174	12,902	122,878	-	9	59	68	122,946
Impaired debts	24	-	81	105	-	-	-	-	105
Debt in arrears 90 days or longer	957	-	17	974	-	-	-	-	974
Deposits from the public	-	-	66,643	66,643	-	-	10,244	10,244	76,887
Risk assets	56,509	-	17,320	73,829	-	-	31	31	73,860

Small and micro, medium and large business - operations in Israel - consolidated

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Loans to the public, net	2,796	10,793	13,589	1,422	3,743	5,165	5,378	7,024	12,402
Impaired debts	68	249	317	4	20	24	132	231	363
Debt in arrears 90 days or longer	3	35	38	-	-	-	-	-	-
Deposits from the public	4,004	11,216	15,220	704	4,661	5,365	3,143	21,790	24,933
Risk assets	3,296	7,562	10,858	3,279	3,928	7,207	15,401	9,683	25,084

Major Investees

The contribution of investees to net operating profit in 2015 amounted to NIS 149 million, compared with NIS 144 million last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 148 million, compared to NIS 130 million in the corresponding period last year - see explanation under Investees below.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav")

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the replacement license, Bank Yahav may engage in new operations and may expand its client base, subject to advance permission by the Supervisor of Banks.

Concurrently with receiving the replacement license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav operates in accordance with the replacement license, subject to policies of the Bank Yahav Board of Directors on this matter.

In the first quarter of 2015, Bank Yahav was awarded a tender by the Comptroller General of the Ministry of Finance for provision of budget loans to Government employees. Bank Yahav applies the agreement as from July 1, 2015.

Bank Yahav's contribution to Group net profit in 2015 amounted to NIS 60 million, compared with NIS 31 million in 2014. The increase in net profit is primarily due to debentures realized in the third quarter of 2015. Net profit return on equity for Bank Yahav (average equity, as defined in the Supervisor of Banks' Public Reporting Directives) amounted in 2015 to 11.3%, compared to 6.2% in 2014. Bank Yahav's balance sheet total as of December 31, 2015 amounted to NIS 22,651 million, compared to NIS 20,813 million as of December 31, 2014, an increase of 8.8%. The balance of loans to the public as of December 31, 2015 amounted to NIS 7,943 million, compared to NIS 7,299 million as of December 31, 2014, an increase of 8.8%.

Tefahot Insurance Agency (1989) Ltd. ("Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Tefahot Insurance's contribution to Group net profit in 2015 amounted to NIS 68 million, compared with NIS 72 million in 2014.

Net return on equity amounted to 8.7% in 2015, compared to 10.0% in 2014.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed NIS 18 million to the Bank's profit in 2015, net, compared with net profit of NIS 16 million in 2014.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in 2015 amounted to CHF 0.9 million, compared to CHF 1.1 million in 2014. Mizrahi Bank Switzerland's balance sheet total as of December 31, 2015 amounted to CHF 196 million, compared to CHF 221 million at the end of 2014.

The balance of loans to the public as of December 31, 2015 amounted to CHF 72 million, compared to CHF 76 million at end of 2014. The balance of securities as of December 31, 2015 amounted to CHF 3 million, similar to the balance at end of 2014. The deposits with banks as of December 31, 2015 amounted to CHF 119 million, compared to CHF 142 million at end of 2014. Deposits from the public as of December 31, 2015 amounted to CHF 124 million, compared to CHF 156 million at end of 2014. Deposits from banks as of December 31, 2015 amounted to CHF 10 million, compared to CHF 5 million at end of 2014.

These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi Overseas Holdings to Group net profit in 2015, net of exchange rate effects, amounted to net profit of NIS 2 million, compared with NIS 4 million in the corresponding period last year.

Actual net profit results of Mizrahi Overseas Holdings include the effect of changes in exchange rates, which is covered by the Bank's own resources.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 to the financial statements.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 2% of these investments are marketable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment of the investment is made by the Bank.

Bank investments in non-banking corporations as of December 31, 2015 amounted to NIS 101 million, compared to NIS 123 million at end of 2014, as set forth below.

Under the available-for-sale securities portfolio:

- NIS 2 million (unchanged from end of 2014) is with respect to negotiable investments.
- NIS 61 million is with respect to participation units in various equity funds (unchanged from end of 2014).
- Investments in several different other corporations, which are stated at cost, the balance of the investment in which totaled NIS 1 million as of December 31, 2015, (NIS 8 million as of the end of 2014) Under investment in associates:
- NIS 16 million (NIS 31 million as of end of 2014) constituting the balance of Bank investment in mezzanine funds. A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.
- NIS 19 million (same as of end of 2014) is the balance of the Bank's investment in Psagot Jerusalem Ltd., a private company which acquired land in the Jerusalem area for residential development. The carrying amount of Bank investments as of December 31, 2015 amounted to NIS 35 million, (same as of end of 2014).
- NIS 2 million (identical amount as of end of 2014) is the balance of the Bank's investment in Rosario Capital Ltd., a private company engaged in underwriting, assistance and consulting on private and public issuance, mergers & acquisitions, investment in securities and distribution of securities.

Bank net gain from investments in non-banking corporations, after provision for impairment, in 2015 amounted to NIS 6 million, compared with a loss amounting to NIS 16 million in 2014.

Risk overview

Overview of risks and manner of managing them

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to different risks, mainly – market, interest, liquidity, credit and operational risks. The risks management policies, in various aspects, is designed to support achievement of the Group's business goals while limiting exposure to such risks. The Bank has a structured process for mapping and identification of risks associated with Bank operations and the list of material risks for Bank operations and the list of the risk managers is approved by management and by the Board of Directors, at least once a year. The Bank also has an extensive list of policy documents which govern Bank handling of various risks, including measurement, management and mitigation of each risk. As part of these policy documents, the Board of Directors determines the risk appetite. The Bank has a master policy document which specifies the framework for risks management and control, including the reporting chain required under normal conditions and in an emergency. Over the past year, the Bank continued to upgrade its handling of the risk appetite specified by the Board of Directors and in particular, has created a dedicated policy document which governs the qualitative and quantitative framework for handling risk appetite including their reporting and monitoring .

Risks are is managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 (risks management) and in conformity with the framework specified in Basel II, Pillar 2 - including required changes upon Basel III coming into effect, in line with Bank of Israel directives. In December 2012, the Bank of Israel issued Proper Banking Conduct Directives310, 333, 311, 350 and 314 with regard to risks management, as well as an update to Regulation 339. The Bank has completed preparations for application of these regulations effective as from January 2014 (Regulation 333 will be effective as from July 2014), which stipulate new standards for risks management and control at the Bank. The Bank also completed preparations for addressing the regulations concerning liquidity risk - Proper Conduct of Banking Business Directive 342 and Proper Conduct of Banking Business Directive 221. For more information see chapter "Corporate governance" on the financial statements.

Bank management believes that risks control and management must be an integrative process. The management of risks from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible diversification of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements. In recent years, the Bank has arranged the required framework for addressing its risks, including all components required for appropriate treatment of risks: Setting principles for risk managements, including setting of risk appetite by the Board of Directors; setting management roles for implementation of the principles specified by the Board of Directors; roles of the three lines of defense specified (first line - risk takers or business lines; second line - control line; third line - Internal Audit); the required reporting chain under normal and emergency conditions; and continuous monitoring of the Bank's risk profile in view of the risk appetite specified by the Board of Directors.

As part of this framework, Bank units have upgraded the Bank's quarterly risk exposure report (mini ICAAR), in conformity with Proper Conduct of Banking Business regulation 310, to provide an extensive overview of the various risks faced by the Bank, highlighting the status of the risk profile in view of the risk appetite specified in the policy document. Thus, this document complements and reinforces the view of the risk profile provided in the Bank's annual ICAAR (Internal Capital Adequacy Assessment Report) document, which includes the Bank's capital planning process and which is part of the requirements of Basel II Pillar 2. The Bank also runs a variety of stress tests that challenge its current risk profile under stress conditions, emphasizing stress tests that review the risk profile under material changes to macro-economic conditions. The Bank has a special master policy document, which specifies the principles for conducting stress testing and, in particular, how they are used at the Bank, including for specification of the risk appetite. As noted above, this framework specifies the roles of the Board of Directors, management and the three lines of defense in addressing different risks, based on the following principles:

Board of Directors - Sets Bank policies on risks and capital management, including specification of risk appetite, approval of business objectives and setting the strategic plan, as well as the risk profile derived from it. The Board of Directors approves policies on handling various risks and management of capital and monitors the implementation of such policy, with continuous monitoring the Bank's risk profile in view of the risk appetite specified by the Board.

Management - committed to identification and management of material risks to which the Bank is exposed (each Risks Manager in their own area). Management is tasked with implementing policies for management of each of the risks, compliance with the risk appetite set by the Board of Directors, *inter alia*, by setting management restrictions which are lower than those set by the Board of Directors and development of strategies and tools for risk mitigation and for reducing potential damage.

Business units - these risk-taking units are at the front line of risks management, are responsible for management and control of the various risks, including use of tools, processes and procedures for on-going risk management in order to achieve business targets, subject to the specified risk appetite framework.

CRO - in 2011, the Bank established a dedicated Risks Control Division. The Manager of the Risks Control Division is the Bank's Chief Risk Officer (CRO). The Risks Control Division is the central line for risk control operations, using dedicated systems (sometimes different than those used by the business units) and procedures for continuous monitoring of the risk profile. The Division uses monitoring tools as close as possible to operations of the business units and to the risk-taking events. These include intra-day monitoring tools, as described below. The Division is tasked with constantly challenging the Bank's risk appetite, while monitoring the Bank's risk profile with respect to various risks - both under normal and stress conditions. The Risks Control Division is also responsible, through designated units for handling compliance risk and money laundering risk at the Bank and for validation of models used by the Bank (model risk) and for providing an independent opinion (analysis) on credit approval. Over the past two years, in conformity with Bank of Israel directives, the Division has started to coordinate, as the second line operation, the Bank's policy document on management of credit, interest, market and liquidity risks. Starting in the current year, the Chief Risk Officer challenges the work plan targets for the next year, in accordance with the Bank's specified risk profile and risk appetite.

Internal Audit - forms another layer for tracking and monitoring risk level. Internal Audit operations usually take place after risk has been taken. Internal Audit, using the tools in its use, acts independently to map and assess the risk level at the various units and to review the effectiveness of internal control at the Bank.

In the past year there was no material change to the Bank's risk profile; continuous monitoring of the risk profile indicates that the Bank has low risk with regard to market and interest rate risk, liquidity risk and operational risk - and low-medium with regard to credit risk. This review is based on the Bank's risk appetite benchmarks and on a subjective annual evaluation by risks managers and controllers, in which they express their opinion about the different risks levels, the quality of risks management and the anticipated direction of their development in the coming year.

During this year, the Bank reviewed its market and interest rate risk, in view of the low interest rate environment and the potential for change in interest rate trends; the Bank found that the framework specified for addressing this risk in recent years, including the range of restrictions specified, reporting, forums and means of management and control applied by the Bank would ensure appropriate handling of this risk, whose current risk profile - based on a range of risk appetite benchmarks and on diverse stress tests - is low. In similar fashion, the Bank found that the framework stipulated for handling liquidity risk, where management attention to such risk increased significantly at the Bank over the past year due to Bank of Israel requirements in new directives on handling such risk , is appropriate. The Bank has a clear outline for all liquidity benchmarks required according to the directive, the Bank has expanded the stress tests and required escape plans for addressing this risk. As noted, the current risk profile is low.

In recent years, the Bank significantly upgraded the monitoring of its mortgage portfolio - which is the largest in the banking system. This upgrade was made in compliance with all Bank of Israel requirements and directives. Currently, the Bank has many risk benchmarks for regular analysis of its mortgage portfolio, based on risk factors in the portfolio - including: LTV, repayment ratio and underwriting quality. As part of this effort, in recent years the Bank conducted a range of stress tests, which review the portfolio from multiple aspects using a range of methods for calculating the outcome of stress tests, in conformity with Bank of Israel requirements and with commonly accepted methodologies. The Bank's stress tests are based on material changes in macro-economic conditions relevant to the mortgage portfolio, primarily unemployment and interest rate data, where in some stress tests, the Bank applies the macro-economic conditions specified in the Bank of Israel Uniform Scenario, which is published annually. Based on the range of outcomes and analysis by the Bank and in comparison to outcomes of stress testing by overseas banks, the Bank determined that the potential loss for the portfolio upon occurrence of a significant stress event, is low as percentage of Tier I capital for the Bank - even without accounting for the many actions which may be taken to bring borrowers out of default or for the quality of underwriting at the Bank. The Bank continues to continuously monitor its mortgage portfolio. For more information, see chapter "Credit risk" below.

In the past year, the Bank significantly advanced its framework for handing internal enforcement risk, compliance risk, AML risk and cross-border risk - using a range of tools to deploy the culture for handling such risks across Bank units, with allocation of human and technology resources required to address such risk, including conducting compliance and regulatory surveys, arranging for appropriate reporting and deploying systems to support such risks.

The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I capital at the Bank. The Bank specified restrictions, under normal market conditions and under stress conditions, for most risks - based on the outcome of various stress tests conducted by the Bank. The Bank has zero risk appetite for non-compliance with regulation. As noted above, each year the risk appetite is challenged by the Chief Risk Officer, management and the Board of Directors in view of business targets specified in the work plan, the risk profile and the impact of business targets on the risk profile and in view of results of the qualitative process conducted by Bank managers, which are designed to review the level and evolution of various risks over the coming year. Consequently, the Bank's business strategy is supported by an appropriate risk appetite framework with constant monitoring of the risk profile and with alerts issued if the risk profile reaches the specified limits for risk appetite. The Bank’s Board of Directors and management consider that all major business operating segments at the Bank should be monitored for a specific risk appetite and that the resources required for management of risk associated with such operations have been allocated. Thus, for example, in the past year the Bank completed development of the models required for rating and pricing of retail clients using advanced models, which are added to ordinary monitoring benchmarks - due to the expanded Bank business in this segment, due to the strategy set by the Bank.

As noted above, the Bank has extensive methodology for conducting diverse stress tests. This methodology and the use of the stress testing results are incorporated in a specific policy document. The Bank extensively uses the stress testing results in the capital planning process, which is part of the ICAAR document. This process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress tests at various severity levels. These stress tests impact Bank profitability by causing potential loss sue to material risks for Bank operations: credit risk, credit concentration risk, market risk, interest rate risk in the bank portfolio, operational risk etc. As part of capital planning by the Bank, the Bank's required capital level is reviewed when stress tests cause the Bank to incur a potential loss for three consecutive years, thereby eroding its Tier I capital. Stress tests strongly emphasize the Bank's mortgage portfolio, it's business lending operations, potential impact of information security and cyber events, operating events etc. The Bank filed its seventh ICAAR document at the end of 2015, after it was approved by Bank management and by the Board of Directors. The outcome of capital planning by the Bank indicates that the Bank has sufficient capital to achieve the targets in its strategic plan, even given stress tests at various severity levels.

For more information about corporate governance for risk management at the Bank Group and about the risk culture, see the detailed Risk Management Report on the Bank website.

Credit risk

Credit risk management

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank.

The Bank's Board of Directors has defined the credit policies, including the Bank's risk appetite for economic sectors, borrower groups, mortgages, overseas operations etc. Bank policies with regard to credit is based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and their implications on credit risk. Credit risk management at the Bank is carried out in conformity with Regulation 311 of the Bank of Israel.

Monitoring of the risk profile, in view of the specified risk appetite, is made at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank's Board of Directors and management. Monitoring is performed by the business units and by the Risk Control Division. Monitoring of risk appetite is a major part of the Bank's quarterly risk exposure report, which is approved by the Bank's Board of Directors.

The Bank's Board of Directors has also set dedicated policy on credit concentration risk, in which it has specified the risk appetite in this area and specified methodology for measurement, control and reporting. The structure of lines of business with regard to credit is based on three divisions, reporting to the President & CEO, as follows:

Retail Division

This division consolidates most of the bank credit activity of individual clients, including mortgages and the activity of small business clients. Bank branches and business centers operate under this division in seven geographic regions.

Business Banking Division

This division handles most banking activity of business clients (including from the real estate and construction sector) of medium to large business operations.

Finance Division

With regard to credit, the Finance Division serves private banking and international operations through private banking units in Israel and through overseas subsidiaries and affiliates.

For more information about client attributes in each segment, see chapter "Explanation and analysis of results and business standing" (Description of Bank Group business by operating segment) above.

The purpose of the credit approval process is to review and assess the risk associated with extending credit to any client. Primarily the process verifies that the requested credit is in fact appropriate for client needs and repayment capacity. This review is conducted both for approval of new credit and for renewal of or changes to existing credit.

The review process, performed by the line of business, consists of multiple stages including: review of client quality, review of contracting documents, review of collateral quality, review of client credit rating, determination of the credit types appropriate for client needs and repayment capacity, determination of credit type and how it is to be provided, with regard to the implications for capital requirements (risk asset measurement), setting credit term and repayment schedule, setting business conditions, interest rate and commissions.

The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, emphasizing the required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units operating within the lines of business. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

Below is information about key processes involved in credit risk management and control at the Bank:

Considerations in extending credit – The considerations involved in granting credit are based mainly on the quality of the client, his reliability, financial strength, liquidity, repayment ability, seniority in the industry, length of time with the Bank, behavior in the account and on the quality of the collateral. Likewise, the Bank works to match credit type and terms to client needs. In cases in which loans are issued based primarily on the quality of the borrower, without a collateral requirement for full or partial coverage, the Bank may specify certain covenants, such as maintaining certain financial ratios.

Procedures - Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment, while learning lessons from different events. These procedures serve to implement the policy principles set by the Bank Board of Directors.

Risk diversification - The Bank's credit policies have been based for years on diversification and controlled management of risk. Risk diversification is reflected in different ways: Diversification of the loan portfolio across economic sectors, including increased exposure to specific sectors, diversification across client size groups, diversification across different linkage bases, geographic diversification if applicable (construction sector).

Authority to grant credit – In order to streamline the decision-making process as it relates to granting credit while minimizing risk, a ranking of authority was determined for officers and credit committees at different levels, up to the level of the Board of Directors and its Credit Committee.

Credit-granting decisions, beginning from the region level, are made by credit committees in order to minimize the risk in relying on the judgment of a single individual. The credit authorizations include restrictions on credit limit as well as on the percentage of unsecured credit that each authorized official is permitted to approve, and other guidelines were prescribed relating to the prerogative to exercise authority in certain situations.

Currency exposure in credit - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these customers. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Credit in the construction and real estate sectors- In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand and mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risk inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policy and rules for financing other real estate transactions, such as financing for rental properties, purchase groups, National Zoning Plan 38 etc.

Borrower rating - The Bank has developed a system for rating business borrowers, based on a computer-based model that combines quantitative and qualitative assessments of borrower, which has been adapted for a range of business borrowers in various economic sectors. The Bank regularly maintains the different existing models and develops new models, and acts to adapt, update and improve them in line with changes in the business environment.

The objective of the rating system is to provide for credit risk management and to support decision making processes. The system determines the rating of a borrower as a function of the quality of the client, the collateral furnished and the amount of credit received. The Bank has developed its ability to rate clients in the mortgage segment and in the retail segment using advanced models. Each of these segment clients is assigned a credit rating which reflects the theoretical likelihood of the client being in default. The borrower rating models are subject to periodic validation, in conformity with Bank of Israel directives, which are carried out by the Model Validation Department of the Risks Control Division.

Learning lessons – credit control processes are conducted from extending credit to credit repayment. However, sometimes credit is not repaid as required and special treatment is necessary. Learning lessons is a process designed to identify inappropriate credit behavior in order to avoid repeating mistakes. Lessons are learned with regard to clients by a team which includes representatives from all Bank divisions and led by the Special Client Sector in the Business Division. These findings are disseminated to relevant recipients at the Bank for implementation of the conclusions among those involved in extending credit at the Bank. In addition, the Bank has established a framework for learning lessons from operating failure events, which arise from credit-related business operations.

Monitoring and control - Control over credit operations is a key component in maintaining quality of credit extended by the Bank to clients, including maintaining the quality of collateral required to secure credit repayment. The Bank continuously acts to identify and locate, as soon as possible, any indications of impairment of borrowers' repayment capacity or any deterioration in the state of their collateral. The Bank applies different control mechanisms, including internal controls within the credit management chain - i.e. first line controls - which are regularly conducted by branches, regions, headquarters and specific units involved there with, and controls by entities external to the credit process, i.e. second-line controls.

The three lines of defense for credit risk are defined as follows:

- **First line of defense – Lines of business related to credit at the Bank** – The Bank's organizational structure with regard to credit is designed to support achievement of Bank targets and in fulfillment of its business plan. Line of business management is fully responsible for risks management and for implementing an appropriate control environment for its operations The professional units in each of these client segments are responsible for regularly verification, monitoring and control of exposure to clients and operating segments for which they are responsible. This line of defense includes specific control units, such as division controllers and other control functions. These operations are incorporated in specific procedures, which ensure implementation of the specified principles for risk management.
- **Second line of defense – Risks Control Division** – The Risks Control Division acts as the Bank's independent risks management function, thus serving as the second line of defense within corporate governance for risk management. The Division Manager is also the Bank's Chief Risk Officer (CRO). With regard to credit risk management, the Division operates through multiple independent units, namely: The Credit Risks Control Department (responsible for credit operations control in retrospect), the Analysis Department (which, according to Bank of Israel directives, provides opinions about credit applications), Capital Market Exposure Department (which controls client activities involving derivatives), Advanced Model Development and Deployment Department (responsible for development of advanced models to be used for credit operations), Operational risks Department (for management and control of operational risk associated with credit operations), and the Validation Department (for periodic validation of major models used for providing and assessing credit).
- **Third line of defense - Internal Audit Division** – Internal Audit serves as the third line of defense within corporate governance for risks management, operating in line with the work plan for auditing the Bank's credit operations.

Integrated forums for credit risk management and control – In conjunction with corporate governance for risks management and mitigation, the Bank established different forums for credit risk management, under normal conditions and under emergency conditions, which incorporate the three lines of defense at the Bank. The forums related to credit at the Bank are: Risk Monitoring Forum for credit and credit concentration risk, Watch List Forum, Emergency Credit Forum and Lessons Learned Forum.

Monitoring and control systems - the Bank Group regularly uses computer systems for management and control of credit risk. These computer systems provide control tools for personnel, including the specific unit assigned with identifying and controlling credit risk, to identify loans that exceed credit limits or are under-collateralized, as well as tools for identifying credit-risk developments resulting from the existence of various parameters in client-account development and management. There are several significant systems which play an important role in processes of credit management, risks management and control, including a system to calculate the required capital allocation with respect to credit risk, systems for identifying and alerting credit risks, for providing alert information, monitoring of financial covenants, automatic debt classification system and computer system for control and management of all accounts under legal proceedings.

Environmental risks

Environmental risk to the Bank is the risk of loss which may be incurred due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risks derived from this risk (goodwill, third party liability etc.) In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown.
In conformity with directives of the Supervisor of Banks, banks are required to act to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when granting credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended. The Bank's policy documents include a dedicated environmental risk policies, including a methodology for identification, assessment and handling of environmental risk.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control. Identified clients are handled by the Special Client Sector of the Business Division.

In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debts, based on specified criteria. Some of these criteria require debt to be classified as problematic debt, while others provide a warning and allow the professional entity to exercise discretion. Debts are reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels with regard to classifications and provisions granted to committees headed by the Manager, Accounting and Financial Reporting Division and to the Bank management Provision Committee. Concurrently with the identification and classification process, a built-in, independent control process is conducted by regional management and by designated units at headquarters. Bank operations in this regard are carried out in conformity with Directive 314 of the Bank of Israel.

A computer system which supports application of measurement and disclosure provisions for impaired debts, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debts classification as debt under special supervision, inferior debt, impaired debt or debt in restructuring, as required.

Identification of housing loans (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings, if needed.

Identification and classification of troubled debt – The Bank classifies all troubled debt and troubled off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected.

In conformity with Bank policy, debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank would be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Banking Conduct Directive 314 on problematic debt in housing loans.

Provision for credit losses - upon application of the directive for measurement and disclosure of impaired debts, credit risk and provision for credit losses on January 1, 2011, the Bank implemented a computer system for identification and classification of debts where risk of credit losses exists or may emerge. The system is connected to various infrastructure systems at the Bank, combining data to allow for debts review designed to assess their robustness and expected cash flows. The new system applies automated processes for identification, review, classification and determination of provisions, including process documentation and hierarchical approvals based on authorities set in Bank procedures. The system also allows for handling problematic debt not identified by the automated identification processes, but rather using qualitative tests of the Bank's loan portfolio.
The decision about the amount of provision for credit losses is derived from the quality of credit and collateral, the financial and legal standing of the borrower and guarantors, as well as environmental and sector conditions in the client environment.

For information about the Supervisor of Banks' directives with regard to group provision and provision for credit losses, see Note 1.D.6 to the financial statements.

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and guarantees).

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit losses.

Such review of debt in order to determine the provision and debt handling is consistently applied to all debt in excess of NIS 700 thousand and in conformity with the Bank's credit management policy - and no transition is made, during the debt term, between the individual review track and the group-based review track - unless in case of restructuring of problematic debt, as noted above.

Individual provision for credit losses – According to Bank policies, this is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

Individual provision is also applied to any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt, unless this debt is subject to provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt collection is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative multipliers to reflect, *inter alia*, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses - This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on group estimate, other than housing loans for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is based on rules specified in FAS 5 (ASC 450) "Accounting treatment of contingencies" and other directives specified in Public Reporting Regulations. The provision is based on historical loss rate in various economic sectors, divided into troubled and non-troubled debt, for the 5 years ended on the report date.

In addition to calculating the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.

In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.

Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge), in conformity with a specific directive by the Supervisor of Banks dated January 19, 2015.

Housing loans

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Banking Conduct Directive no. 329, as per the Supervisor of Banks' letter dated March 21, 2013 "Update to guidelines with regard to residential real estate".

In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of group provision for credit losses with respect to housing loans shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Off-balance sheet credit

The required provision with regard to off-balance sheet credit instruments is assessed as per rules set forth in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as specified in Proper Proper Banking Conduct Directive 203 "Measurement and capital adequacy - Credit risk - Standard approach" with certain adjustments.

For more information about credit risk, see also the Detailed Risk Management Report on the Bank website.

Analysis of credit quality and troubled credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Directive 313, exceeds 15% of the banking corporation's capital (as defined in Directive 313), NIS in millions:

As of December 31, 2015, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such activity:

- Activity with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2015 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	121	711	832
2.	Construction and real estate	-	806	806
3.	Construction and real estate	43	732	775
4.	Construction and real estate	220	467	687
5.	Construction and real estate	39	513	676
6	Construction and real estate	163	380	419

On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

"Equity transaction": A transaction with one of the following purposes:

- Buy-back - the borrower buys, or buys back, issued equity of the borrower (including programs for buying shares for employees).
- Acquisition of another corporation - acquisition of any equity interest in another corporation or acquisition of all assets or a significant portion of assets of another corporation.
- Equity distribution - dividend payment or another transaction designed to increase value for shareholders.

Credit for an equity transaction would be classified according to one of the following rules:

- Credit for an equity transaction, provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
- For credit financing acquisition of equity interest in another banking corporation, or in a banking holding corporation, the threshold would be NIS 35 million.
- Additional credit extended to the borrower after the financing for the equity transaction, with repayment primarily based on the cash flows derived from the equity interest whose purchase was financed by the banking corporation.

Financing for leveraged companies, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria which classify credit included in this category, based primarily on the credit rating of the business client, as reflected in the Criteria model and then individual review of each borrower who meets the threshold criteria. Such borrowers are reviewed by a forum which includes representatives from the Business Division, the Risk Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

As from January 1, 2016, the updates to Directive 323 became effective, concerning limits on financing of equity transactions, as well as Directive 327 concerning management of leveraged loans. These regulations specify the overall risks framework for leveraged loans.

As part of preparations for this regulation by the Bank, the definition of "leveraged financing" was extended in 2015, with added reference to definition of leveraged loans in major economic sectors in which the Bank does business.

Leverage benchmarks, i.e. significantly higher deviation than the norm for the sector, have been determined based on generally accepted financial ratios among Bank clients with material credit in these sectors.

For more information see chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for acquisition of means of control (NIS in millions):

	December 31, 2015				December 31, 2014			
Economic sector of acquired company	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss
Construction and real estate	178	-	178	-	228	-	228	-
Commerce	112	1	113	-	-	-	-	-
Total	290	1	291	-	228	-	228	-

Credit to leveraged companies (NIS in millions):

	December 31, 2015				December 31, 2014			
Economic sector of borrower	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss
Construction and real estate	193	280	473	-	270	-	270	2
Commerce	128	38	166	-	181	51	232	-
Financial services	-	-	-	-	41	-	41	-
Information and communications	61	96	157	-	-	103	103	-
Industry	-	-	-	-	-	76	76	-
Total	382	414	796	-	492	230	722	2

Problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debt, credit risk and provision for credit loss (NIS in millions):

	Total credit risk	
	December 31, 2015	December 31, 2014
Problematic credit risk		
Impaired credit risk	986	953
Inferior credit risk	82	110
Credit risk under special supervision - housing	957	945
Credit risk under special supervision - other	690	267
Total troubled credit risk	2,715	2,275

Major risk benchmarks related to credit quality (in percent):

	December 31, 2015	December 31, 2014
Ratio of impaired loans to the public to total loans to the public	0.5	0.5
Ratio of impaired loans to the public to total non-housing loans	1.5	1.5
Ratio of problematic loans to the public to total non-housing loans	2.3	2.1
Ratio of housing loans in arrears 90 days or longer to total loans to the public [(1)(2)]	0.6	0.6
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.1

(1) This non-housing rate is negligible.
(2) Balance of credit in arrears before provision by extent of arrears.

For more information see chapter "Explanation and analysis of results and business standing" above.

Below is a summary of impaired debt under restructuring made or in default (NIS in millions):

	December 31, 2015		December 31, 2014	
	Recorded debt balance before re-structuring	Recorded debt balance after restructuring	Recorded debt balance before re-structuring	Recorded debt balance after restructuring
Re-structurings made	49	41	99	90

	December 31, 2015	December 31, 2014
	Recorded debt balance	Recorded debt balance
Re-structurings made which are in default	5	8

For more information see Note 30.B.2.C to the financial statements.

Analysis of change

Movement in impaired debts and impaired debt under restructuring (NIS in millions):

	Impaired debts not under restructuring				Impaired debts under restructuring			
	Commer-cial	Housing	Individu-al other	Total	Commer-cial	Housing	Individu-al other	Total
Balance of impaired debts as of December 31, 2014	338	3	15	356	367	-	58	425
Impaired debts and/or re-structured debts for the period	398	21	17	436	7	-	6	13
Impaired debts reclassified in the period	(59)	-	-	(59)	-	-	-	-
Write-offs for the period	(26)	-	(1)	(27)	(25)	-	(2)	(27)
Other changes	(114)	-	(4)	(118)	(174)	-	(8)	(182)
Balance of impaired debts as of December 31, 2015	537	24	27	588	175	-	54	229

	Impaired debts not under restructuring				Impaired debts under restructuring			
	Commer-cial	Housing	Individu-al other	Total	Commer-cial	Housing	Individu-al other	Total
Balance of impaired debts as of December 31, 2013	502	2	19	523	654	-	64	718
Impaired debts and/or re-structured debts for the period	176	1	11	188	4	-	8	12
Impaired debts reclassified in the period	(32)	-	(2)	(34)	-	-	-	-
Write-offs for the period	(55)	-	(9)	(64)	(101)	-	(4)	(105)
Other changes	(253)	-	(4)	(257)	(190)	-	(10)	(200)
Balance of impaired debts as of December 31, 2014	338	3	15	356	367	-	58	425

For more information about problematic credit risk, see Notes 13 and 30 to the financial statements.

Analysis of provision for credit losses

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	For the year ended December 31,		For the quarter ended December 31,	
	2015	2014	2015	2014
Provision for credit losses on individual basis (including accounting write-offs)	124	109	73	132
Provision for credit losses on Group basis:				
By extent of arrears	(20)	(20)	(11)	(10)
Other	107	84	13	28
Total expenses with respect to credit losses	211	173	75	150
Expense with respect to credit losses as percentage of total loans to the public, net (annualized):	0.13%	0.12%	0.19%	0.41%
Of which: With respect to commercial loans other than housing loans	0.37%	0.33%	0.60%	1.23%
Of which: With respect to housing loans	0.01%	0.01%	(0.02%)	(0.02%)

Expenses with respect to credit losses for the Group in 2015 amounted to NIS 211 million, or 0.13% of total loans to the public, net compared to NIS 173 million in 2014, or 0.12% of total loans to the public, net), for a total increase of NIS 38 million.

Expenses with respect to credit losses for the Group amounted to NIS 75 million in the fourth quarter of 2015, or an annualized rate of 0.19% of total loans to the public, net, compared with NIS 150 million in the corresponding period last year – an annualized rate of 0.41% of total loans to the public, net in the corresponding period last year - a decrease of NIS 75 million in total.

The significant increase in the Bank's loan portfolio caused an increase in the group provision, including a group provision with respect to housing loans calculated in conformity with Bank of Israel directives. The total expense rate with respect to credit losses out of total loans to the public, net in 2015 was essentially unchanged. See details below.
In the fourth quarter of 2014, the Bank increased the qualitative group provision with respect to loans to individuals to 0.75%, in conformity with the Supervisor of Banks' directives.

Analysis of movement in balance of provision for credit losses (NIS in millions):

	Commer-cial	Housing	Individual – other	Total	Banks and govern ments	Total
Balance of provision as of December 31, 2014	632	624	189	1,445	5	1,450
Expenses with respect to credit losses	149	9	55	213	(2)	211
Accounting write-offs	(211)	(20)	(114)	(345)	-	(345)
Recovery of debts written off for accounting purposes in previous years	127	1	65	193	-	193
Net accounting write-offs	(84)	(19)	(49)	(152)	-	(152)
Balance of provision as of December 31, 2015	697	614	195	1,506	3	1,509

	Commer-cial	Housing	Individual – other	Total	Banks and govern ments	Total
Balance of provision as of December 31, 2013	630	640	148	1,418	10	1,428
Expenses with respect to credit losses	83	6	93	182	(9)	173
Accounting write-offs	(220)	(22)	(123)	(365)	-	(365)
Recovery of debts written off for accounting purposes in previous years	139	-	71	210	4	214
Net accounting write-offs	(81)	(22)	(52)	(155)	4	(151)
Balance of provision as of December 31, 2014	632	624	189	1,445	5	1,450

For more information about provision for credit losses see Notes 13 and 30 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	December 31, 2015	December 31, 2014
Ratio of provision for credit losses to total loans to the public	0.9	1.0
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.1	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.1	0.1
Of which: With respect to commercial loans other than housing loans(1)	0.4	0.3
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1

(1) The rate with respect to housing loans with respect to credit is negligible.

Credit Risk by Economic Sector - Consolidated

As of December 31, 2015

Reported amounts (NIS in millions)

	Off balance sheet debts(1) and credit risk (other than derivatives)(2)			Total credit risk	
	Debts(1)	Guarantees and other commitments on account of clients	Total	Debentures(4)	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	617	185	802	-	-
Mining and excavation	505	314	819	-	29
Industry and production	5,059	3,277	8,336	-	63
Construction and real estate - construction(7)	8,866	17,146	26,012	-	1
Construction and real estate - real estate operations	2,149	184	2,333	-	2
Electricity and water delivery	674	543	1,217	-	280
Commerce	7,978	2,054	10,032	-	42
Hotels, dining and food services	752	229	981	-	-
Transport and storage	968	404	1,372	-	1
Information and communications	902	462	1,364	-	7
Financial services	3,398	6,534	9,932	-	1,041
Other business services	1,928	914	2,842	-	7
Public and community services	1,037	317	1,354	-	9
Total commercial credit	34,833	32,563	67,396	-	1,482
Private individuals - housing loans	105,635	7,352	112,987	-	-
Private individuals – other	16,173	11,097	27,270	-	33
Total	156,641	51,012	207,653	-	1,515
For borrowers' activities overseas	3,963	1,269	5,232	21	57
Total loans to the public	160,604	52,281	212,885	21	1,572
Banking corporations	3,096	262	3,358	274	1,955
Governments	316	16	332	11,523	-
Total credit	164,016	52,559	216,575	11,818	3,527

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 71 million.
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policy. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,285 million and off-balance sheet credit risk amounting to NIS 1,467 million, extended to certain purchase groups which are in the process of construction.

Futures transactions	Total	Credit performance rating[5]	Total problematic credit risk: Problematic[6]	Impaired	Problematic off balance sheet debt[1] and credit risk (other than derivatives) – Credit losses[3]: Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	802	794	8	7	1	2	6
11	859	859	-	-	2	-	6
121	8,520	8,369	151	84	23	17	87
1	26,014	25,397	617	233	(5)	(2)	144
2	2,337	2,211	126	124	37	52	78
80	1,577	1,575	2	1	-	-	3
29	10,103	9,684	419	338	78	27	160
-	981	951	30	20	10	7	17
2	1,375	1,357	18	5	(2)	(1)	6
2	1,373	1,301	72	3	17	-	23
2,564	13,537	13,519	18	15	(35)	(30)	84
46	2,895	2,855	40	19	6	11	30
45	1,408	1,384	24	18	1	-	10
2,903	71,781	70,256	1,525	867	133	83	654
-	112,987	112,007	980	24	9	19	613
60	27,363	26,861	195	81	55	49	195
2,963	212,131	209,124	2,700	972	197	151	1,462
28	5,338	5,323	15	14	16	1	44
2,991	217,469	214,447	2,715	986	213	152	1,506
599	6,186	6,186	-	-	(2)	-	3
-	11,855	11,855	-	-	-	-	-
3,590	235,510	232,488	2,715	986	211	152	1,509

Credit Risk by Economic Sector - Consolidated - continued

As of December 31, 2014[8]

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	630	184	814	-	1
Mining and excavation	379	356	735	-	51
Industry and production	5,265	2,709	7,974	-	392
Construction and real estate - construction[7]	9,060	17,167	26,228	16	3
Construction and real estate - real estate operations	2,428	237	2,665	-	1
Electricity and water delivery	774	498	1,271	1	375
Commerce	7,440	2,360	9,800	-	42
Hotels, dining and food services	649	151	800	-	4
Transport and storage	962	263	1,225	-	13
Information and communications	975	437	1,412	-	20
Financial services	3,414	9,603	13,017	-	1,555
Other business services	1,853	768	2,621	-	3
Public and community services	868	339	1,207	-	28
Total commercial credit	34,697	35,072	69,769	17	2,488
Private individuals - housing loans	95,906	6,273	102,179	-	-
Private individuals – other	14,744	10,779	25,523	-	19
Total	145,347	52,124	197,471	17	2,507
For borrowers' activities overseas	3,565	1,197	4,762	50	50
Total loans to the public	148,912	53,321	202,233	67	2,557
Banking corporations	4,384	293	4,677	342	3,045
Governments	307	53	360	13,853	-
Total credit	153,603	53,667	207,270	14,262	5,602

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Includes borrowed securities amounting to NIS 107 million.

(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policy. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,423 million and off-balance sheet credit risk amounting to NIS 1,747 million, extended to certain purchase groups which are in the process of construction.

(8) Following the directive by the Supervisor of Banks dated April 9, 2014, which stipulated revision of various sector categories to match those of the Central Bureau of Statistics, Comparative figures with respect to total credit risk and provision for credit losses (excluding housing loans) were reclassified.

			Total problematic credit risk		Problematic off balance sheet debt(1) and credit risk (other than derivatives)		
					Credit losses(3)		
Futures transactions	Total	Credit performance rating(5)	Problematic(6)	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	815	801	14	10	3	(3)	7
14	735	735	-	-	(3)	-	4
120	8,550	8,461	89	75	(11)	1	81
2	26,249	25,943	307	245	(61)	(11)	147
-	2,666	2,405	261	255	169	99	93
103	1,751	1,750	1	1	1	-	3
36	9,878	9,670	208	141	22	21	109
4	808	791	16	7	8	4	14
7	1,247	1,227	20	17	1	(2)	7
6	1,438	1,433	5	1	-	(1)	6
2,073	16,644	16,526	118	59	(31)	(16)	89
2	2,624	2,562	62	36	5	9	35
41	1,277	1,251	26	19	(2)	(5)	9
2,408	74,682	73,555	1,127	866	101	96	604
-	102,179	101,231	948	3	6	22	623
70	25,612	25,291	185	75	93	52	189
2,478	202,473	200,077	2,260	944	200	170	1,416
40	4,902	4,887	15	9	(18)	(15)	29
2,518	207,375	204,964	2,275	953	182	155	1,445
714	8,778	8,778	-	-	(9)	(4)	5
-	14,213	14,213	-	-	-	-	-
3,232	230,366	227,955	2,275	953	173	151	1,450

Exposure to Foreign Countries - Consolidated[1]

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower:

													As of December 31, 2015
	Balance sheet exposure[2]										Off-balance sheet exposure[2][3]		
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure[5]	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	1,068	945	1,297	405	405	-	3,310	13	1	407	-	2,083	1,227
Others [5]	6	1,740	3,685	1,063	370	693	6,124	34	1	975	-	2,206	3,225
Total exposure to foreign countries	1,074	2,685	4,982	1,468	775	693	9,434	47	2	1,382	-	4,289	4,452
Of which: Total exposure to LDC countries	6	-	394	-	-	-	400	1	-	68	-	136	264
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	5	49	-	-	-	54	-	-	14	-	18	36

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.
(4) Governments, official institutions and central banks.
(5) The Bank closely monitors events in the financial markets which started after the balance sheet date and adjusts its current operations as required. The Bank informs the Supervisor of Banks of its exposure to foreign financial institutions and of steps taken to mitigate the risk associated with its operations.

Exposure to Foreign Countries - Consolidated[(1)] - continued

Reported amounts (NIS in millions)

													As of December 31, 2014
	Balance sheet exposure[(2)]										Off-balance sheet exposure[(2)(3)]		
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments[(4)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure[(5)]	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	1,008	1,238	1,175	351	351	-	3,421	6	-	304	-	2,293	1,128
France	-	427	1,361	-	-	-	1,788	13	-	199	-	534	1,254
Other	23	1,562	2,535	943	402	541	4,661	13	-	1,010	-	2,451	1,669
Total exposure to foreign countries	1,031	3,227	5,071	1,294	753	541	9,870	32	-	1,513	-	5,278	4,051
Of which: Total exposure to LDC countries	23	-	636	-	-	-	659	2	-	124	-	302	357
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	4	41	-	-	-	45	-	-	22	-	17	28

- The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.
- The row "Total exposure to LDC countries" includes total exposure to countries classified as "Less Developed Countries" (LDC) in Proper Conduct of Bank Businesses regulation 315 "Supplementary provision for doubtful debts".
- Balance sheet exposure to such country includes cross-border balance sheet exposure and balance sheet exposure of affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located.
- Balance sheet exposure of affiliates of the banking corporation in a foreign country to local residents includes balance sheet exposure of affiliates of the banking corporation in that foreign country to local residents, less liabilities of these affiliates (deducted up to the exposure amount).

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.
(4) Governments, official institutions and central banks.

Exposure to Foreign Countries - Consolidated[1] - continued

Reported amounts (NIS in millions)

Part B - Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower:

	December 31, 2015		December 31, 2014	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure[2]
France	1,727	138	-	-
UK	1,588	250	1,646	146

Part C - Information regarding balance sheet exposure to foreign countries facing liquidity issues

Movement in balance sheet exposure to foreign countries facing liquidity issues:

	For the year ended December 31, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	14	-	14
Net change in short-term exposure	-	2	-	2
Exposure at end of reported period	-	16	-	16

	For the year ended December 31, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	5	-	5
Net change in short-term exposure	-	9	-	9
Exposure at end of reported period	-	14	-	14

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) Comparative figures for previous periods were restated.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions[(1)(2)] (NIS in millions):

External credit rating	On-balance sheet credit risk[(3)]		Off balance sheet credit risk[(4)]	Current credit exposure	
	Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[(5)]		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[(5)]
					As of December 31, 2015
AAA to AA-	981	874	2	983	876
A+ to A-	1,309	778	76	1,385	854
BBB+ to BBB-	38	25	-	38	25
BB+ to B-	-	-	14	14	14
Lower than B-	-	-	-	-	-
Unrated	34	34	-	34	34
Total credit exposure to foreign financial institutions	2,362	1,711	92	2,454	1,803
					As of December 31, 2014
AAA to AA-	630	468	2	632	470
A+ to A-	2,491	1,409	75	2,566	1,484
BBB+ to BBB-	-	-	-	-	-
BB+ to B-	-	-	11	11	11
Lower than B-	-	-	-	-	-
Unrated	34	34	-	34	34
Total credit exposure to foreign financial institutions	3,155	1,911	88	3,243	1,999

As of December 31, 2015 and December 31, 2014 there was no problematic commercial credit risk, net.

Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision, excluding credit risk with respect to individuals.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Banking Conduct Directive 313 (excluding off-balance sheet derivatives).
(5) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.C to the financial statements.

Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to derivative instruments. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, *inter alia*, the risk appetite - i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

In this regard, the Bank closely monitors events in the financial markets which started after the balance sheet date and adjusts its current operations as required. The Bank informs the Supervisor of Banks of its exposure to foreign financial institutions and of steps taken to mitigate the risk associated with its operations.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Ratings - Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on the Bank's exposure to nations and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments. External ratings form a basis for in-house analysis of a country or counter-party, conducted by the Bank. Other data from various sources used for this analysis are also taken into account. The Bank's assessment of the counter-party may differ from that of the rating agency.

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Moody's. Ratings and analysis are periodically updated by the rating agencies and the Bank uses the most current information available when setting facilities or when reviewing a counter-party. The main rating used by the Bank for independent analysis is the rating provided by Fitch.

Housing credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risk associated with provision of housing loans. The Bank estimates the risk profile associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, which recently has decreased even further due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.

The Bank acts regularly to control and manage the risk associated with housing loans, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress tests to review the impact of macro-economic factors on portfolio risk - primarily the impact of unemployment and interest rates. The Bank has developed an advanced model for rating housing loans, which includes a rating for each loan and calculation of potential loss in case of failure. This model is in addition to the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.

The key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model (which reflects the risk associated with the mortgage borrower), LTV ratio of the loan, property location (geographical risk) and credit quality benchmark (see below under Credit Control). Over the past two years, the list of risk benchmarks has been extended within the Bank's policy document and additional restrictions were imposed on various parameters: loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risk exposure report which is approved by the Board of Directors.

In 2015, the monitoring tools consist of over 40 risk benchmarks specified by the Board of Directors and management, which are presented in the Bank's quarterly Rsk Exposure Report with a review of the resulting risk profile, which also reviews the evolution of these risk appetite benchmarks over time. This monitoring system is complemented by results obtained from use of advanced models. This monitoring indicates that the risk profile of the Bank's mortgage portfolio has been trending downwards in recent quarters, for most of the specified risk appetite benchmarks, including LTV and loan repayment ratio. In particular, default rates in the portfolio have been trending lower in recent years. In addition, as noted above, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using a variety of stress tests. This testing is part of testing of the portfolio risk profile. This review, too, indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low relative to Bank primary capital.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Change in %	
	2015	2014	2013	2015 over 2014	2014 over 2013
Mortgages issued (for housing and any purpose)					
From the Bank's funds	23,804	18,280	19,434	30.2	(5.9)
From the Treasury's funds					
Directed loans	65	108	149	(39.8)	(27.5)
Standing loans and grants	125	173	197	(27.7)	(12.2)
Total new loans	23,994	18,561	19,780	29.3	(6.2)
Refinanced loans	4,795	3,309	2,645	44.9	25.1
Total loans originated	28,789	21,870	22,425	31.6	(2.5)
Number of borrowers (includes refinanced loans)	59,468	46,529	47,274	27.8	(1.6)

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of December 31, 2015):

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of December 31, 2015 was 55.0%, compared to 55.8% on December 31, 2014 and to 56.3% on December 31, 2013. Out of the total loan portfolio of the Bank, amounting to NIS 106.7 million, some 94% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices since late 2008, along with reduced loan balances with respect to current repayment, result in a lower current LTV ratio for loans granted through 2008, so that most all of the loans currently have LTV ratios under 75%. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.2 billion, or only 0.2% of the total housing loan portfolio.
On November 1, 2012, the Supervisor of Banks issued directives which restrict the loan-to-value ratio for housing loans (these directives were grouped, together with other directives, in a circular with regard to housing loans dated July 15, 2014).
These directives stipulate that the LTV ratio may not exceed:

Up to 75% – for borrowers who are Israeli citizens buying a single apartment (as defined in Section 9(c) of the Real Estate Taxation Act).

Up to 70% – for second home buyers buying an alternative apartment (an apartment bought by an Israeli citizen who owns a residential apartment which would be a single apartment if not for the apartment being purchased, where the borrower commits to sell their existing apartment as set forth in Section 9(c1a)(2)(a)(2) of the Real Estate Taxation Act)

Up to 50% – for buyers of a rental property, for general-purpose loans and for loans to foreign residents.

Loans granted with LTV ratio higher than 75% (cases which are exceptions to the directive on limitation of LTV ratio) are usually secured by credit insurance, which significantly reduces risk for the Bank, although it does not affect the LTV, capital allocation required for such loan or the repayment ratio calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 2.9 billion is insured by credit insurance - 45%.
In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 0.8% for loans granted 1-2 years ago, 0.5% for loans granted 3-12 months ago and 0.3% for loans granted in the fourth quarter of 2015.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's housing loan portfolio is 28.2%. Some 78% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.6%). Some 17% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.3%). Some 4% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.8%), and only 1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.2%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

On August 29, 2013, the Supervisor of Banks issued directives with regard to restrictions on provision of housing loans, which stipulated restrictions on the ratio of monthly loan repayment to income.

On July 15, 2014, the Supervisor of Banks issued a circular concerning restrictions on provision of housing loans, which incorporates, *inter alia*, the directives described above, dated August 29, 2013. The circular also redefines the term "repayment ratio". For further details, see the chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements.

Loans bearing variable interest

The Bank offers clients housing loans which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

The directive by the Supervisor of Banks dated May 3, 2011, restricted the portion of loans extended bearing interest which may vary within a 5-year term to 33% of total loan amount. The Supervisor's letter dated August 29, 2013 stipulates that in addition, a banking corporation may not approve a housing loan where the ratio of the loan portion bearing variable interest to total loan amount exceeds 67% - regardless of the frequency of interest rate change.
The aforementioned directives by the Supervisor of Banks, dated May 3, 2011 and dated August 29, 2013, were incorporated in a circular concerning restrictions on provision of housing loans dated May 15, 2014. For further details, see the chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Note that the repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. In recent years, when interest rates were low, these clients benefited significantly from lower loan costs.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 9.7 billion, or only 9.1% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase based on "normative interest".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 4.4 billion, or only 4.2% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio(1) (NIS in millions):

LTV ratio	Repayment as percentage of regular income	Loan age(2) (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,672	8,600	8,788	15,992	11,222	3,883	51,157
	35%-50%	349	1,132	1,562	4,943	2,689	770	11,445
	50%-80%	-	1	16	1,553	994	285	2,849
	Over 80%	-	-	-	123	167	53	343
60%-75%	Up to 35%	1,491	5,006	4,706	10,256	5,448	973	27,880
	35%-50%	185	583	556	2,507	1,349	255	5,435
	50%-80%	-	-	2	538	465	96	1,101
	Over 80%	-	-	-	27	52	13	92
Over 75%	Up to 35%	13	70	103	1,399	1,832	1,387	4,804
	35%-50%	1	7	20	313	414	483	1,238
	50%-80%	-	-	-	40	132	163	335
	Over 80%	-	-	-	1	28	34	63
Total		4,711	15,399	15,753	37,692	24,792	8,395	106,742
Of which:								
Loans granted with original amount over NIS 2 million		195	701	615	1,906	987	39	4,443
Percentage of total housing loans		4.1%	4.6%	3.9%	5.1%	4.0%	0.5%	4.2%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,209	4,015	4,476	10,465	11,587	1,379	33,131
CPI-linked(3)		12	44	114	1,355	4,588	1,575	7,688
In foreign currency(3)		65	240	576	2,005	1,000	364	4,250
Total		1,286	4,299	5,166	13,825	17,175	3,318	45,069
Non-linked loans at prime lending rate, as percentage of total housing loans		25.7%	26.1%	28.4%	27.8%	46.7%	16.4%	31.0%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.3%	0.3%	0.7%	3.6%	18.5%	18.8%	7.2%
Loans with LTV over 75% as percentage of total housing loans		0.3%	0.5%	0.8%	4.7%	9.7%	24.6%	6.0%

(1) Balance of housing loans after provision by extent of arrears.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted up to once every 5 years.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Banking Conduct Directive 314, as of December 31, 2015 (NIS in millions):

	Extent of arrears							
			In arrears 90 days or longer				Balance with respect to refinanced loans in arrears[4]	Total
	In arrears 30 to 89 days[3]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	11	10	11	12	194	227	63	301
Of which: Balance of provision for interest[1]	-	-	-	1	97	98	6	104
Recorded debt balance	347	373	180	80	146	779	172	1,298
Balance of provision for credit losses [2]	-	-	25	36	111	172	77	249
Debt balance, net	347	373	155	44	35	607	95	1,049

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(4) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

For more information about housing credit risk, see the Detailed Risk Management Report on the Bank website.

Means for risk management in housing loans

Underwriting process

Criteria for loan approval

The Bank has specified uniform, quantitative criteria for review and approval of housing loan applications. Along with the uniform criteria, decision makers at the Bank exercise their judgment. The guiding criteria for granting housing loans have been determined, inter alia, based on the following:

- Accumulated experience at the Bank with regard to housing loans, including lessons learned over time with regard to parameters which determine borrower quality and quality of loan collateral.
- Results of current credit reviews which include, inter alia, review of changes to credit quality in certain sectors.
- Assessment conducted, *inter alia*, through stress testing, of credit risks due to changing macro-economic conditions.

- Assessment of credit risks in different areas of the country, due to security-related and other events.
- During evaluation of the loan application, three key parameters are assessed: Borrower quality and repayment capacity, proposed collateral and nature of the transaction. For commercial banking, prime importance is usually assigned to the loan purpose. In the mortgage business, the main weighting in making credit decisions lies in assessment of borrower quality, because practically all of the loans are extended for purchase of real estate by households. However, for general-purpose loans, self-construction loans and non-standard loans, a weighting is assigned to the nature and quality of the transaction when making a decision.
- Collateral and guarantors form a safety net for the Bank in a specific transaction, in case the monthly repayment does not go according to plan.
- Decision making by the Bank involves a process of review of transaction data against predetermined criteria. Decision making with regard to credit is hierarchical and, to a large extent, corresponds to the Bank's management ranking. There are multiple approval levels and the application is routed to the required level based on application data.

These criteria are regularly updated in line with market developments and the portfolio's risk profile.

Credit authority

The Bank has created a ranking of authority for approval of housing loans (at branch, region and headquarters level). The authorized entity to approve the loan is determined based on data in the loan application and on inherent risk there of (data about borrowers, LTV ratio, risk premium and nature of the transaction). To enhance control over approval of complex, high-risk loans and loans to specific populations (such as: large loans, transactions between family members, acquisition through a Trust, loans with pledged collateral being a property in high-risk locations etc.), such applications are sent for approval by the Underwriting and Control Department operating in the mortgage headquarters sector.

In addition, a major part of the loan origination process is conducted by the National Review Center. This Center controls the appropriateness of the loan origination process, including compliance with Bank procedures and various directives.

Model for determination of differential risk premium

The Bank has developed a model for calculation of differential risk premium, based on past empirical data, for rating transaction risk at the loan application stage. For each application, an individual risk premium is calculated based on all risk factors identifiable in client information and attributes of the desired transaction.

This premium reflects an estimate of overall transaction risk, allowing for assessment of client odds of being in arrears on the loan or becoming insolvent - at the outset of the application stage. This premium is used for both credit decision making and for pricing of client interest rate. The Bank is currently reviewing potential improvement of this model.

Built-in controls in loan origination system

The Bank manages its mortgage operations using a dedicated computer system developed for this purpose, which includes the following built-in controls:

- Ensure information completeness required for loan and activities required in preparation of the material, review and approval of the loan.
- Rigid, real-time control over transactions by authorization. Use of this preventive control methodology significantly reduces the need for discovery controls after loan origination.
- Work flow process with real-time control over execution of all required tasks at each stage of the loan origination process, sending the application to the authorized entity for performing the required actions at each stage of the loan approval process.

Use of this system has resulted in improved control in different stages of the loan origination process, while achieving uniformity among different Bank branches.

Mortgage-related training

The Bank's Training Center delivers courses for training, development and improvement of all those involved in provision of housing loans. Training content is determined in cooperation with the Mortgage Headquarters Sector, and staff at headquarters participates in training delivery to bankers. These courses include, inter alia, special emphasis on risks management. In addition, the mortgage operations are included within the Bank-specified framework for handling operational risk and staff at the mortgage headquarters take part in training designated for this area.

Professional conferences

The Retail Division regularly holds professional conferences for managers and bankers. In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.

Regular monitoring of borrower condition and of the housing loan portfolio

Credit control is a key factor in maintaining quality of credit provided by the Bank to its clients. Control over housing loans is exercised at the individual loan level as well as for the entire mortgage portfolio.

At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank operates various controls, including regular internal controls at branches, regions and headquarters, as well as additional controls by the second and third line of defense of the Bank's credit risk management system - the Risks Control Division and Internal Audit.

The Bank maintains control over quality of new credit provided by branches, by means of a monthly Credit Quality report, which includes all loans originated by the Bank between 6-18 months prior to the reported date which are over 3 months in arrears. This report is designed to assist branches in reducing the extent of arrears, and to increase awareness of troubled loans by those originating and approving loans in order to learn lessons for future credit approval. Along with the individual report, listing loans, details of arrears etc., a statistical report is also produced, showing the extent of arrears at each branch, compared to the region and to the Bank as a whole, and compared to previous months. Management of the Retail Division regularly monitors handling of debt in arrears, using this report.

For the entire mortgage portfolio, control is maintained of restrictions imposed by the Bank's risk appetite, both at the Retail Division and at the Risks Control Department of the Risks Control Division.

In addition, a credit control report is produced semi-annually by the Risk Control Division, containing an extensive review of the development of the housing loan portfolio's risk profile over the reviewed period, with reference to the following:

- Risk appetite.
- Analysis of major risks and attributes.
- Review of state of arrears and credit quality
- Client debt collection
- Housing loan portfolio for special populations
- Stress testing
- Purchase groups.

Entities participating in risk management and control for housing loans

Mortgage Management Department of the Retail Division

This department handles different events which occur during the loan term, whether initiated by the Bank or by the borrower. One of the key tasks is monitoring of collateral provided. During loan origination, the Bank usually receives interim collateral, and the final collateral is expected to be received during the loan term. The department also monitors receipt of life and property insurance policies during the loan term.

Risks Control Division

The Risks Control Division monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. As for mortgages, the portfolio is analyzed semi-annually, including analysis of developments in housing loan grants and our market share, as well as credit composition by various criteria. This report is discussed by the Supreme Credit Committee (a management committee) and by the Board of Directors' Risks Management Committee and is then presented to the Bank Board of Directors. The division is responsible for regular stress testing of the Bank's mortgage portfolio, in coordination with the Mortgage Headquarters sector, while challenging multiple risk factors in this portfolio. Some stress testing is conducted using advanced methods and using current data from advanced models developed by the Bank. The Bank recently upgraded its stress testing in conformity with Bank of Israel directives (the Bank of Israel uniform scenario – a uniform macro-economic scenario for the entire banking system). In this context, stress tests challenge the current macro-economic situation and account for a very high level of unemployment compared to the current situation, an interest rate which is significantly higher than current interest rates as well as sharply lower housing prices. This stress testing indicates that the portfolio risk level is low and that the Bank has sufficient capital to withstand the risk level derived from such strict stress testing. The results of stress testing of the mortgage portfolio are regularly presented to the Risks Management Committee of the Board of Directors and to the Board of Directors plenum, as part of the quarterly risk exposure report and at specific discussions.

Credit risk and credit concentration monitoring forum

The Bank operates a forum for monitoring credit risk, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, specification of triggers for activating stress testing; supervision of design and application process of stress testing, and monitoring of the risk profile of the Bank's loan portfolio.

Legal Division

As part of the underwriting process, collateral for non-standard loans (such as: transactions involving family members) and high-value loans are reviewed by the Mortgage Advisory Department, a dedicated department in the Legal Division. This test complements the loan approval and review conducted at the branch and the regional underwriting department.

Collection Department

The Bank operates a dedicated Collection Department, which handles debts collection from borrowers in arrears and realization of properties. Processing is automatically launched once the client fails to make a mortgage payment for the first time. If this failure is not resolved, processing continues by the Telephone Collection Center (prior to filing a law suit), designed to reach payment arrangements with clients. If such an arrangement with borrowers cannot be reached, the debt is processed by the Bank's Collection Department, which includes a dedicated department for mortgage debtors, and legal proceedings are initiated vs. the debtors.

Arrears Forum

The Arrears Forum of Bank management convenes monthly, headed by the Manager, Business Division, and reviews the current state of affairs with regard to collection in the previous month, implications on the financial statements and on the provision for credit losses. The Forum specifies targets for debt processing and for reducing arrears.

Internal Audit

The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in housing loans

Collateral

In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
For verification of information about the property offered to the Bank as collateral and to determine its value, an assessor visit to the property is normally required, providing a report which describes the property, its location, physical

condition and market value. Assessors are party to an agreement with the Bank and act in accordance with Bank guidance, including a structured procedure for conducting assessments, identifying exceptions etc.

The common practice for assessment in the mortgage sector is to use an abbreviated assessment. However, since 2006, the Bank has required assessors to conduct extended assessment for some of the loans for purchase of existing apartments, self-construction or general-purpose loans with high-risk property types, which includes additional tests subject to criteria set for this matter.

Insurance

According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.

For some loans (usually loans with LTV ratio higher than 75%), the Bank contracted with EMI Corp., which provides credit insurance in case the proceeds from realization of the property collateral for the loan should fail to cover the outstanding loan amount. This credit insurance process is a key risk mitigator.

As from November 1, 2012, the Bank of Israel restricted origination of housing loans with LTV over 75%, so that as of this date the Bank no longer approves new loans with credit insurance and LTV over 75% (except for loans exempted from this directive, such as refinancing loans).

Loan to Value (LTV) ratio

The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, borrower equity is a further indication of the borrower's financial robustness. As from November 1, 2012, the Bank restricted the LTV ratio for approval of applications for housing loans, pursuant to the Bank of Israel directive on this matter. The LTV ratio for loans to acquire rights to real estate constituting a "single apartment" (as defined in the directive) shall not exceed 75%, for an "alternative apartment" (as defined in the directive), the LTV ratio shall not exceed 70%, and for acquisition of an investment property, general-purpose loan or loan extended to foreign residents - the LTV ratio shall not exceed 50%. For further details, see the chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements. For more information about the Supervisor of Banks' directives with regard to capital adequacy, see Note 25.H to the financial statements.

Market risk and interest rate risk

Market and interest rate risk management in the bank portfolio

Market risk – This is the risk of loss in on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities). The Bank has no exposure to commodities and its exposure to equities is not material, so that Bank exposure to such risk is due to basis risk - the risk exists when the Bank's assets and liabilities are denominated in different currencies or are in different linkage segments - and from interest rate risk, which the risk to Bank profit (change in revenues) or to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value). The Bank manages its market risk and interest rate risk in integrated fashion, under the same organizational structure and using similar tools, data structures, methodology and systems.

Market risk and interest rate risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest rate risk may expose the Bank to loss and may pose a threat to Bank capital. Therefore, the Bank Board of Directors and management have specified, in the Bank's structured process for risk mapping and identification, that market risk and interest rate risk are material risks and that management of these risks is critical for stability of the Bank, especially in view of the low interest rate environment and the potential for change in market interest trend. Therefore, the Bank Board of Directors issued a special document on handling of market risk and interest rate risk, which stipulate the principles whereby the Bank should act in order to identify, measure, monitor, review and control the market risk and interest rate risk on a regular basis, both in the normal course of business and in times of stress. Management of these risks is designed to maintain a reasonable risk level, in conformity with the exposure caps, i.e. the risk appetite specified for these risks, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant loss.
Management of market risk and interest rate risk at the Bank consists of two main risk concentrations: the bank portfolio and the negotiable portfolio. The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, other than for hedging purposes: The debenture portfolio for trade of the Interest Trading Unit (market maker portfolio), derivatives transactions classified under the market maker portfolio and futures for debentures - as part of the interest portfolio, as well as option portfolios (foreign currency, MAOF and interest) of the Foreign Currency Trading Unit, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific restrictions on exposure and profitability. This portfolio is small relative to activity in the bank portfolio and is associated with low risk.

The bank portfolio, which is the Bank's primary activity, consists of all transactions not included in the negotiable portfolio, including financial derivatives used to hedge the bank portfolio. This portfolio is exposed to interest rate risk, known as "interest rate risk in the bank portfolio". The exposure which the Bank wishes to retain is due to the Bank's

business operations and is reflected in the Bank's financial statements. This exposure is limited by the risk appetite, specified individually for market risk and interest rate risk in the bank portfolio, which is reviewed by the Bank at least once a day, using various tools and models. Any deviation from or even getting close to the specified exposure limits are regularly reported and immediately addressed, in conformity with principles specified in the policy document created by the Bank. The Bank has operations involving financial derivatives, mostly vis-à-vis clients, which are required to maintain capital adequacy or to maintain collateral based on scenarios. These operations are regularly monitored by the Bank on intra-day basis by a dedicated control system developed by the Bank.
The Bank has relatively little activity vis-à-vis clients who are mostly engaged in trading financial derivatives and short-selling or with clients who are not subject to capital requirements or collateral. These clients are closely monitored at a higher frequency than other clients.

Market risk and interest rate risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav are regularly co-ordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Conduct of Banking Business regulations of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice. The Bank of Israel directives relevant for market risk management are: Proper Conduct of Banking Business regulation 310 - The master regulation for risk management, which stipulates principles for risk management which support the capacity of the banking corporation to identify evolving risk and to respond to it. Proper Conduct of Banking Business regulation 339 "Market Risk Management"; Proper Conduct of Banking Business regulation 333 "Interest rate risk Management", which expands the regulations with regard to interest rate risk, mostly with regard to Bank activity in the bank portfolio; and Proper Conduct of Banking Business regulation 208 "Capital Measurement and Adequacy", with regard to definition of revaluation management and capital allocation under Pillar 1 with respect to the negotiable portfolio. The Bank reviews, in conjunction with its capital planning, as part of Basel Pillar 2, the capital required of the Bank with respect to interest rate risk in the bank portfolio, in conformity with Proper Conduct of Banking Business regulation 211.

As part of risk management, the Bank is required to allocate capital, as part of Basel II, Pillar 1, against risk in the negotiable portfolio, in conformity with Proper Conduct of Banking Business regulation 208 "Capital measurement and adequacy – market risk" which includes the Basel II directives with regard to definition, management and revaluation of the negotiable portfolio. The regulation stipulates that inclusion of an instrument and/or position in the negotiable portfolio is subject to compliance with objective criteria (free of any treaty which restricts their negotiability or which may be fully hedged) and subjective criteria (trading intent or hedging of other components in the negotiable portfolio, active portfolio management and frequent, accurate valuation of the portfolio).

In conformity with Proper Banking Conduct Directive 208, the Bank is required to allocate capital with respect to interest and shares risk in the negotiable portfolio, for exchange rate risk for all banking activities and for options risk. The Bank uses the effective duration method in measuring interest rate risk, and the Delta Plus method in measuring option risk. This method quantifies the risk associated with operations of the options portfolio based on the discounting values. These reflect the sensitivity of the options portfolio to movements in the underlying asset and in standard deviation.

Capital allocation for currency exposure (basis risk) is at 8% of the net open position in each currency. No capital allocation is made for inflation exposure (NIS / CPI position). As part of the provisions of this directive, the Bank also calculates specific risk in the negotiable portfolio. Capital requirements with respect to specific risk are intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. The capital requirement with respect to specific risk is in lieu of the capital requirement with respect to credit risks in the bank portfolio.

Due to the low level of risk inherent in the Bank's negotiable portfolio, the Bank's capital allocation with respect to market risk is very low.

The bank portfolio includes the positions not classified as negotiable positions in the negotiable portfolio. The Bank handles interest rate risk in the bank portfolio and overall additional capital allocation with respect there to, in conformity with Basel Pillar 2. Interest rate risk in the bank portfolio is monitored on a regular basis, both in managing interest rate risk for the overall portfolio in VAR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. For more information about these models, their use and limitations - see below.

The additional total capital allocation by the Bank with respect to interest rate risk in the bank portfolio, in conjunction with Basel Pillar 2, is made in line with Bank methodology which assumes, in conformity with Bank of Israel directives, stress conditions in the market. The Bank reports its capital calculation s with respect to Basel Pillar 2 in its ICAAR document. Thus, the Bank completes the capital review it is required to perform with respect to market and interest rate risk in the bank portfolio.

Linkage segment management

Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk.

Inflation exposure – The risk appetite varies with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame. This exposure is included among the risk appetite benchmarks and models applied by the Bank to all market risks.

Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risk management committees.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risk and interest rate risk in the bank portfolio, which includes the Board of Directors, management and the three lines of defense. This structure is supported by special committees and forums, created for such risk management and in order to create an internal control system, designed to prevent deviation from Bank policy in its activity in the negotiable portfolio and in the bank portfolio.

For more information about market and interest rate risk, see the Detailed Risk Management Report on the Bank website.

Hedging and risks mitigation policy

A major tool for management and mitigation of interest rate risk is setting shadow prices at the Bank (transfer pricing). Shadow prices are determined daily at the Bank by the Asset and Liability Management Department of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government debentures. The Asset and Liability Management Department also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from rapid execution at large amounts, which allows the Bank to "move positions" within a reasonable time frame for asset and liability management. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedging instrument. When hedging instruments and hedged items are not fully identical, hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest rate risk, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank reviews the concentration of interest rate risk by linkage segment and by major instrument type. The concentration map is discussed by risks management committees.

The Bank constantly acts to increase awareness of market and interest rate risk in the bank portfolio at Group level, both at headquarter units, at branches and at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest rate risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest rate risk in the bank portfolio.

Measurement of market and credit risk exposure and management thereof using models for risk management

Measurement of market and interest rate risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests. The information systems involved in the calculation are regularly reviewed, through internal controls processes at the Bank, including specific surveys for monitoring activities and information and continuous validation processes, in order to ensure completeness and accuracy of data and calculations.

The models, calculation methodologies, input data, including market data and assumptions underlying the models, are validated and reviewed over time by the Bank's Validation Unit - operating in the Risks Control Division - which is part of the second line of defense for handling this risk.

The Bank has two major models for managing its market and interest rate risks: The VaR model and the EVE model. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risk, at least once per day.

EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest rate risk in the bank portfolio, which reviews changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest rate risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for this risk. The Bank also performs a Twist scenario, where the interest rate curve moves in non-parallel fashion. Such scenario complements the EVE approach, which is based on parallel move of interest rate curves.

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a pre-determined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a method previously developed with assistance from overseas experts, which integrates multiple VaR calculation methods commonly used world-wide. The VaR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. review the model forecast, compared to actual results. The Bank has specified a risk appetite in VaR terms, for the entire Bank portfolio and for its activities in various options portfolios (for various underlying assets). VaR calculations for the Bank's overall portfolio are made daily, while calculations for the option portfolios are made hourly. The outcome of VaR calculation and other risk benchmarks at the Bank are made using a special system acquired by the Bank for management of its market and interest rate risk ("Algorythmics system") and are reported on a special portal. All data required for estimation of these risks is stored in a central database. This database is subject to automated controls applied regularly.

Below is the VAR for the Bank Group (NIS in millions):

	All of 2015	All of 2014
At end of period	195	286
Maximum value during period	379 (May)	288 (NOV)
Minimum value during period	193 (OCT)	162 (JAN)

Back-testing of the historical-analytic VAR model shows one case in which the daily loss exceeded the forecasted VAR value. This deviation, amounting to NIS 5.5 million, was primarily due to a sharp increase in the CPI-linked curve, in response to the CPI being published and to lower inflationary expectations. This number of cases is within the criteria specified by the Basel Committee. Therefore, the Bank's VAR model is valid.

Below are exceptions during the reviewed period (NIS in millions):

Exception date	Exception value
July 17, 2013	5.5

Analysis of interest rate risk in bank portfolio

Below is the effect of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

						December 31, 2015
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
Increase of 2%	(631)	83	(72)	(37)	(11)	(668)
Decrease of 2%	875	(198)	91	39	12	819

						December 31, 2014
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
Increase of 2%	(1,191)	58	236	(11)	(2)	(910)
Decrease of 2%	1,004	(202)	(38)	3	3	770

Exposure of the Bank and its subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of December 31, 2015					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	100,730	1,517	3,968	7,913	8,767	6,215
Financial derivative instruments (other than options)	5,761	9,580	19,794	13,233	8,407	9,439
Options (in terms of underlying asset)	1,125	506	982	59	91	-
Total fair value	107,616	11,603	24,744	21,205	17,265	15,654
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	74,449	8,823	15,829	8,007	7,517	4,255
Financial derivative instruments (other than options)	19,427	19,252	11,288	10,481	8,051	9,225
Options (in terms of underlying asset)	1,510	667	1,399	62	91	-
Total fair value	95,386	28,742	28,516	18,550	15,659	13,480
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	12,230	(17,139)	(3,772)	2,655	1,606	2,174
Cumulative exposure in sector	12,230	(4,909)	(8,681)	(6,026)	(4,420)	(2,246)

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

(4) Reclassified.

Over 10 to 20 years	Over 20 years	Without maturity	As of December 31, 2015 Total fair value	Internal rate of return	Average effective duration[2]	As of December 31, 2014 Total fair value	Internal rate of return	Average effective duration[2]
				In %	in years		In %	in years
2,112	98	419	131,739	3.19	1.04	[4]117,158	3.43	0.88
-	-	-	66,214		1.23	74,729		1.19
-	-	-	2,763		0.73	7,967		0.73
2,112	98	419	200,716		1.10	199,854		0.99
561	190	-	119,631	1.18	0.82	[3]106,780	0.97	0.48
-	-	-	77,724		1.42	82,788		1.38
-	-	-	3,729		0.85	8,914		0.85
561	190	-	201,084		1.05	198,482		0.87
1,551	(92)	419	(368)			[3]1,372		
(695)	(787)	(368)	(368)					

Exposure of the Bank and its subsidiaries to changes in interest rates - continued

Reported amounts (NIS in millions)

	As of December 31, 2015					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	1,458	2,450	10,801	21,846	10,727	3,835
Financial derivative instruments (other than options)	14	73	260	978	1,428	468
Total fair value	1,472	2,523	11,061	22,824	12,155	4,303
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	771	815	6,575	10,035	11,228	5,873
Financial derivative instruments (other than options)	61	649	1,874	4,228	1,670	476
Total fair value	832	1,464	8,449	14,263	12,898	6,349
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	640	1,059	2,612	8,561	(743)	(2,046)
Cumulative exposure in sector	640	1,699	4,311	12,872	12,129	10,083

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
			As of December 31, 2015			As of December 31, 2014		
				In %	in years		In %	in years
1,060	35	72	52,284	2.64	2.64	54,627	2.60	2.66
-	-	-	3,221		3.08	3,618		3.16
1,060	35	72	55,505		2.67	58,245		2.69
2,139	-	2	37,438	1.59	3.54	(3)40,631	1.21	3.37
-	-	-	8,958		1.61	10,617		1.68
2,139	-	2	46,396		3.17	51,248		3.02
(1,079)	35	70	9,109			(3)6,997		
9,004	9,039	9,109	9,109					

Exposure of the Bank and its subsidiaries to changes in interest rates - continued

Reported amounts (NIS in millions)

	As of December 31, 2015					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1-3 years	Over 3-5 years	Over 5-10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[2]	7,908	5,045	2,186	196	685	1,009
Financial derivative instruments (other than options)	29,221	27,393	13,178	3,557	4,933	2,783
Options (in terms of underlying asset)	970	1,550	1,556	48	91	-
Total fair value	38,099	33,988	16,920	3,801	5,709	3,792
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[2]	18,656	9,132	8,367	419	82	205
Financial derivative instruments (other than options)	15,575	17,026	20,184	3,150	5,096	3,042
Options (in terms of underlying asset)	932	878	1,155	45	91	-
Total fair value	35,163	27,036	29,706	3,614	5,269	3,247
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	2,936	6,952	(12,786)	187	440	545
Cumulative exposure in sector	2,936	9,888	(2,898)	(2,711)	(2,271)	(1,726)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

(2) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(3) Weighted average by fair value of average effective duration.

					As of December 31, 2015			As of December 31, 2014
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	in years		In %	in years
560	1,306	323	19,218	1.66	1.53	19,856	2.46	0.77
-	-	-	81,065		1.50	86,161		1.53
-	-	-	4,215		0.42	9,780		0.42
560	1,306	323	104,498		1.46	115,797		1.31
5	-	535	37,401	0.63	0.34	35,517	0.61	0.33
-	-	-	64,073		0.94	72,236		0.90
-	-	-	3,101		0.44	8,591		0.44
5	-	535	104,575		0.71	116,344		0.69
555	1,306	(212)	(77)			(547)		
(1,171)	135	(77)	(77)					

Exposure of the Bank and its subsidiaries to changes in interest rates - continued

Reported amounts (NIS in millions)

	As of December 31, 2015					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[(1)]	110,096	9,012	16,955	29,955	20,179	11,059
Financial derivative instruments (other than options)	34,996	37,046	33,232	17,768	14,768	12,690
Options (in terms of underlying asset)	2,095	2,056	2,538	107	182	-
Total fair value	147,187	48,114	52,725	47,830	35,129	23,749
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[(1)]	93,876	18,770	30,771	18,461	18,827	10,333
Financial derivative instruments (other than options)	35,063	36,927	33,346	17,859	14,817	12,743
Options (in terms of underlying asset)	2,442	1,545	2,554	107	182	-
Total fair value	131,381	57,242	66,671	36,427	33,826	23,076
Financial instruments, net						
Total exposure to interest rate fluctuations	15,806	(9,128)	(13,946)	11,403	1,303	673
Total cumulative exposure	15,806	6,678	(7,268)	4,135	5,438	6,111

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

(4) Reclassified.

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 33.2) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 33.3) to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with Public Reporting Regulations. These transactions include, inter alia, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience.

				As of December 31, 2015			As of December 31, 2014	
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years
3,732	1,439	814	203,241	2.79	1.50	(4)191,641	2.92	1.38
-	-	-	150,500		1.42	164,508		1.41
-	-	-	6,978		0.54	17,747		0.56
3,732	1,439	814	360,719		1.45	373,896		1.35
2,705	190	537	194,470	1.38	1.25	(3)182,928	1.11	1.09
-	-	-	150,755		1.23	165,641		1.19
-	-	-	6,830		0.66	17,505		0.65
2,705	190	537	352,055		1.23	366,074		1.12
1,027	1,249	277	8,664			(3)7,822		
7,138	8,387	8,664	8,664					

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries (NIS in millions) is as follows:

Fair value of financial instruments before impact of hypothetical changes in interest rates:

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
December 31, 2015						
Financial assets[1]	131,739	52,284	13,604	3,507	2,107	203,241
Amounts receivable with respect to financial derivative instruments[3]	68,977	3,221	66,514	13,217	5,549	157,478
Financial liabilities[1]	(119,631)	(37,438)	(28,490)	(6,113)	(2,798)	(194,470)
Amounts payable with respect to financial derivative instruments[3]	(81,453)	(8,958)	(51,657)	(10,499)	(5,018)	(157,585)
Total	(368)	9,109	(29)	112	(160)	8,664
December 31, 2014						
Financial assets[1]	117,158	54,627	13,908	4,133	1,815	191,641
Amounts receivable with respect to financial derivative instruments[3]	82,696	3,618	75,892	13,681	6,368	182,255
Financial liabilities[1]	(106,780)	(40,631)	(27,577)	(5,173)	(2,767)	(182,928)
Amounts payable with respect to financial derivative instruments[3]	(91,702)	(10,617)	(62,476)	(12,723)	(5,628)	(183,146)
Total	1,372	6,997	(253)	(82)	(212)	7,822

Net fair value of financial instruments, after impact of changes in interest rates[4]:

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
December 31, 2015								
Change in interest rates:								
Concurrent immediate increase of 1%	(610)	9,188	(96)	105	(162)	8,425	(239)	(2.8)
Concurrent immediate increase of 0.1%	(338)	9,118	(36)	111	(160)	8,695	31	0.4
Concurrent immediate decrease of 1%	(108)	9,005	46	119	(157)	8,905	241	2.8
December 31, 2014								
Change in interest rates:								
Concurrent immediate increase of 1%	1,083	7,049	(252)	(84)	(213)	7,583	(239)	(3.1)
Concurrent immediate increase of 0.1%	1,347	6,999	(253)	(82)	(212)	7,799	(23)	(0.3)
Concurrent immediate decrease of 1%	1,561	6,909	(245)	(80)	(211)	7,934	112	1.4

(1) Includes Israeli currency linked to foreign currency.

(2) Includes complex financial instruments. Excludes balance sheet balances of financial derivative instruments and fair value of off-balance sheet financial instruments.
Note that in calculation of the fair value of financial instruments, as stated in Note 10 to the financial instruments, the discount rate for financial assets reflects the inherent credit risk and the discount rate for financial liabilities also reflects the Bank's premium on raising resources. This differs from calculation of the effect of interest rate risk in the banking portfolio, in EVE (Economic Value of Equity) terms, which only includes the effect of exposure to risk-free interest.

(3) Amounts receivable (and payable) with respect to financial derivatives, discounted using interest rates used for calculation of the fair value.

(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements.

CPI and exchange rate

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital - As of December 31, 2015, the Group capital exceeded its non-monetary items by NIS 10,600 million. Group free capital, which includes financial capital, was used in 2015 to finance uses in the CPI-linked NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status - Details on the assets and liabilities in the various linkage segments at December 31, 2015 and December 31, 2014 are presented in Note 31 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investees, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2015 as presented in Note 31 to the financial statements, amounts to NIS 10.0 billion, representing the economic exposure. In December 2014, excess assets in this segment amounted to NIS 8.2 billion.

Excess assets in foreign currency for the Group as of December 31, 2015 amounted to NIS 18.0 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 40 million. As of December 31, 2014, the foreign currency position for the Group, after the aforementioned adjustments and after attribution of the general and supplementary provision for doubtful debts to free capital, amounted to surplus resources amounting to NIS 112 million.

The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis is presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2015:

Capital increase (erosion), NIS in millions:

				Scenarios		Historical stress scenario[1]
	10% increase	5% increase	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI	1,001.4	500.7	(500.7)	(1,001.4)	146.2	(86.1)
Dollar	54.7	30.0	(11.1)	(20.3)	19.6	(4.9)
Pound Sterling	2.2	1.1	(1.2)	(2.3)	0.8	(0.8)
Yen	(5.1)	(2.5)	3.3	6.7	(2.5)	2.4
Euro	7.4	3.6	(2.1)	(5.2)	2.6	(1.3)
Swiss Franc	(0.3)	(0.1)	0.0	(0.1)	(0.5)	0.0

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

Below is the average effective duration of assets and liabilities as of December 31, 2015:

	Including early repayment assumptions[1]					Excluding early repayment assumptions				
	Assets		Liabilities		Average effective duration difference	Assets		Liabilities		Average effective duration difference
	Average effective duration	Fair value	Average effective duration	Fair value		Average effective duration	Fair value	Average effective duration	Fair value	
Non-linked	1.10	200,716	1.05	201,084	0.05	1.28	200,658	1.05	200,978	0.23
Linked to CPI	2.67	55,505	3.17	46,396	(0.50)	3.75	55,565	3.47	46,580	0.28
Foreign currency and linked to foreign currency	1.46	104,498	0.71	104,575	0.75	1.46	104,498	0.71	104,575	0.75
Total	1.45	360,719	1.23	352,055	0.22	1.71	360,721	1.27	352,133	0.44

(1) For details about fair value calculations and early maturity assumptions, see Note 33 to the financial statements.

In the non-linked NIS segment, the effective duration of assets exceeds that of liabilities by 0.05 years. The effective duration calculation is based on early mortgage repayment assumptions and on deposit withdrawals prior to final maturity at exit points, in conformity with terms of the different deposits. Excluding these early maturity assumptions, the effective duration of assets exceeds that of liabilities by 0.23 years.

The difference between internal rate of return (IRR) of financial assets and IRR of financial liabilities is 2.01%. Excluding these early maturity assumptions, the IRR for financial assets exceeds the IRR for financial liabilities by 1.54%.

In the CPI-linked segment, the effective duration of liabilities exceeds that of assets by 0.50 years. The effective duration calculation is based on early mortgage repayment assumptions and on deposit withdrawals prior to final maturity at exit points, in conformity with terms of the different deposits. Excluding these assumptions, the effective duration of liabilities exceeds that of assets by 0.28 years.

The difference between IRR of financial assets and IRR of financial liabilities is 1.05%. Excluding the early maturity assumptions, the difference is 1.10%.

In the foreign currency sector, the duration to maturity of assets exceeds that of liabilities by 0.75 of a year. In this sector, most of the activity is in variable interest, linked to the LIBOR rate, and, therefore the duration to maturity in this sector is low. The assumption concerning early redemption of deposits and loans in this sector has no effect on differences in duration or internal rate of return.

The difference between IRR of financial assets and IRR of financial liabilities is 1.03%.

Operational risk

Operational risk management

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.
The Bank applies a wider definition of operational risk, in accordance with the change in this definition by European and other banks. The revised definition would turn the framework for addressing operational risk into an active one, designed to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reducing the expected loss due to operational risk. The newly revised definition does not supersede the existing ones, which is supported by Basel and by the Bank of Israel, but rather expands it in order to create a framework for operational risk management, which analyzes processes, systems and other risks which may impact the business viability of the Bank.

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions in recent years have increased legislator awareness and financial institutions' awareness of operating failure events, to the large potential for damage which may be caused by such operational risk event and to their main attributes, as follows:

- Operating events may occur throughout the organization and are inherent to financial institution operations.
- Operational risk may potentially impact earnings, revenues, value and reputation of the Bank.
- Operational risk has inter-relationships with other risks, such as market risk, credit risk, liquidity risk, reputation risk and other risks. Thus, for example, an operational risk event may cause reputation risk to materialize, after which the Bank may face a liquidity event.
- A significant share of operating failures has very low probability but relatively large damage potential - which may even threaten Bank stability.
- Operational risk has diverse instances, from human error, malfunction in technological systems, fraud, embezzlement, war, fire, robbery etc.
- Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding) or security event.

Bank management and the Board of Directors attach great importance to managing operational risk, due to its materiality, as part of the Bank's overall framework for risk management and control. The Board of Directors and management have determined that management of operational risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of elevated standards of internal control at all levels.

The Bank has a special policy document for addressing operational risk. The operational risk manager at the Bank is the Manager, Risks Control Division - who is also the Bank's Chief Risk Officer. The framework stipulated for handling this risk includes the framework required for handling fraud and embezzlement, which are part of the operational risk categories according to Bank of Israel directives.

The framework for handling operational risk is based on three lines of defense:

- **First line of defense** The Bank's approach is that risk management is based, first and foremost, on the business units, which review the major business processes and put in a continuous effort of self-assessment of the risk associated there with.
- **Second line of defense** The Risk Control Division, and in particular the Operational risk Department of the Risk Control Division, is tasked with a comprehensive view and monitoring of the operational risk handling framework and with responsibility for handling risk in view of activities in the first line, through a range of processes, tools and methods: Locating major risk hubs in business operations of the first line, through collection of actual operating failure data and conducting specific surveys for identification of potential future failures, as well as adapting the operational risk handling framework to Bank needs, in line with business development at the Bank and with regulatory requirements. The Division also strives for integration between various entities at the Bank, which have monitoring roles for risks adjacent to operational risk (compliance, business continuity, technology, information security and cyber security, SOX) as part of the deployment of the Bank's internal control system.
  The Chief Accountant responsible for credit classification and determining provisions for credit losses.
- **Third line of defense:** Internal Audit conducts audits of operational risk management in order to ascertain the effectiveness of handling such risk, in accordance with the work plan.

Bank policy specifies the Bank's operational risk appetite at 1% of the Bank's core capital. This appetite is constantly monitored by follow up on any default events which caused a loss, managed by category of operational risk, in conformity with Bank of Israel directives and also includes loss due to legal risk, information security and cyber risk, including fraud and embezzlement. The policy also stipulates the risk appetite for potential loss upon occurrence of a stress event. The Bank acts to specify a high-quality risk appetite, primarily by creating forward-looking risk indicators which can indicate a potential for development of operational risk, in addition to collection of actual losses, i.e. losses which have already occurred. The Bank is in the process of arranging KRI (Key Risk Indicators) on its major IT systems as well.

The Bank conducts surveys in order to identify and map operational risk in different divisions, as an on-going process. Over the past year, these surveys have been expanded and they include mapping of material risk for each unit, stress tests, Key Risk Indicators KRI, testing of IT systems in the relevant area and fraud and embezzlement risk. The Bank acts to define, where possible, key performance indicators (KPI) in order to form a tighter link between business targets and the level of operational risk inherent therein, in conformity with the Bank's revised definition as described above. The survey results and action items are discussed, as part of self-assessment processes, by specific forums, attended by managers of the surveyed units and representatives from the Risk Control Division. Recently, the Bank has been reviewing the capacity to conduct operational risk surveys integrated with other internal control risks, so that these surveys may provide an overview of all risks to which the reviewed entity is exposed and the extent of their impact on the entity's business targets.

In addition to these surveys, the Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operational risk. Such analysis serves the Bank in implementation of appropriate steps for parallel processes within the Bank. As part of the integrated view of all internal control risks, the Bank launched in the past year a process to create and deploy a new module in the operational risk portal, to include all information and actions relevant for the unit with regard to such risk.

The Bank allocates capital with respect to operational risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operational risk. This segmentation and addressing the required capital allocation are incorporated in a specific policy document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operational risk is reviewed quarterly, as part of the Bank's Rsk Exposure Report. The risk profile is presented in this context, i.e. the actual loss level, in view of the risk appetite and the most material events which occurred during the quarter are also presented and analyzed.

In recent years, the Bank has prepared to put in place comprehensive infrastructure for addressing fraud and embezzlement risk. As part of this effort, the Bank operates a range of laws designed to identify anomalies and is currently in the design process of a central data base, which would allow the Bank to develop new, advanced methods for identification of anomalies. Handling of fraud and embezzlement is in conformity with a specific policy document, using a framework which integrates several entities at the Bank: Risk Controls, information security and cyber, human resources and the Technology Division.

The third line of operation in the area of operational risks is that of internal audit, which acts independently. The operational risk policies specifies the role of Internal Audit as the entity in charge of carrying out periodic audits of risk management processes, taking part in methodologies for capital calculation with respect to risk, involvement with fraud and embezzlement issues, data gathering, documentation, debriefing and reporting of events, participation as observer on committees and involvement with the Internal Control Forum.

Operational risk mitigation

Due to the significance of operational risk, the Bank takes different steps to mitigate this risk. The most important step is to instill a corporate culture which promotes strong awareness of operational risk, and of deployment of risk-mitigating processes. The internal control trustees, across the entire organization, are the long arm of the operational risk manager in this process. As noted above, the Bank initiates delivery of in-person and technology-based training about operational risk to new employees and to units and populations within such units which were identified as being associated with high operational risk.

Other than arranging for handling of operational risk when launching new or revised products, as part of the Bank policy for handling new products, the Bank also arranged another process for approval of changes to new and revised processes with a potential for materialization of operational risk. These processes undergo a structured process of approval by business entities and by control entities, prior to launch, using a checklist - and are sent for approval by the

Steering Committee. This mechanism is used to review all aspects of the change, ensuring a professional review of the root risk and how to mitigate it.
The Bank is currently completing development of a mechanism designed to empower Bank units with tools for learning lessons from events, in addition to lesson learning processes regularly conducted by the Bank. Conclusions formulated by these processes are incorporated into work processes, systems, training content and procedures - and are also disseminated using the operational risk system to internal control trustees for deployment at their units.
The Bank strongly emphasizes reporting related to operational risk - both reports from internal controls trustees and reports to Bank management and to the Board of Directors, designed to enable continuous monitoring of the Bank's operational risk profile. As noted above, the Bank operates special forums in different divisions for monitoring the risk profile and mitigation plan.
The Bank has established a policies and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operational risk via insurance - the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank obtains an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.
The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank has a specific policy document which governs insurance aspects related to Bank operations.

Business continuity

The Bank applies Proper Banking Conduct of Directive no. 355. In 2015, the Bank implemented the multi-annual exercise program, which includes drills and technology trials, in order to review and improve readiness and awareness of Bank management and employees to handling disaster scenarios; this included exercise of the secondary computer site (DRP), the Bank's alternative trading room and the Bank's emergency programs.
According to a decision by Bank management and the Board of Directors, in 2015 the Bank completed relocation of the Bank's primary data center to the Bank site in Lod and relocation of the secondary data center to the Bank facility in Ramat Gan - in order to improve site survivability in emergency scenarios and in view of amendments to Proper Banking Conduct Directives concerning protection of critical sites. For more information see chapter "Significant developments in IT" in the Report by the Board of Directors and Management. Bank operations with regard to business continuity are incorporated in a specific policy. Reports on progress made on handling business continuity are sent to management, to the Board Risk Management Committee and to the Board plenum - and are included in the Bank's quarterly Rsk Exposure Report.

Information security and cyber security

In accordance with Proper Conduct of Banking Business regulations 357 and 361, the Bank appointed an Information Security and Cyber Officer, who reports to the Manager, Risk Control Division. The unit is in charge of setting information security and cyber security policy for the Bank, developing work plans in these areas, monitoring the implementation of these work plans at the Bank and reviewing the effectiveness of information security and cyber security systems and processes. Information security and cyber security policies at the Bank is implemented, inter alia, by the Mizrahi Tefahot Technology Division Ltd. As part of this effort, the management concept applied includes guidelines for management of cyber security. Application of these guidelines and ensuring that they are current while incorporating them into strategic decisions and business activity at the Bank - would ensure the consistency and integrity of the cyber security management concept over time.

The information security and cyber security policy is based on the following principles:

- Mapping and identifying cyber risks.
- Establishing an effective set of controls with cross-organizational integration of technology, human resources, processes and procedures.
- Maintaining a set of controls applied through managerial, operational and technical mechanisms.
- Establishing mechanisms for protection of on line presence.
- Proactive cyber security implemented through mapping and knowledge of the environment, forecasting and study of threats, weighting of the current situation report, development of responsiveness processes, use of techniques for deception, diversion and delay, cyber resilience and recovery capacity, conducting processes of inquiry, debriefing and execution of judgment.
- Implementation of multi-layer security in several circles and disciplines (both logical and physical), from the external system accessible to clients and through to internal systems, information and intelligence sharing.
- Using a system for monitoring, control and response for management of cyber events with integrated, corporate-wide view of components such as human resources, means of communications and procedures.
- Periodic and current reporting of risks management as a whole.
- Current analysis and assessment of cyber threats and exercising all those involved in handling cyber events.
- Development of stress scenarios related to information security and cyber.

In addition, the Bank's On line Banking sector is certified under the information security management standard ISO 27001.

In 2015 there some local cyber events took place, which were handled by the Bank and reported as required. Following these events, the Bank conducted debriefs, implemented additional alerts, refreshed procedures and enhanced awareness.

In 2015 there were no significant cyber events which caused damage to the Bank.

Legal risk

Proper Banking Conduct Directive 350 concerning Operational risk defines "legal risk to include, inter alia, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements".

The Bank regards legal risk in its wider definition, with regard to Bank conduct in its relationships with various stake holders (clients, suppliers, other third parties etc.) Legal risk includes risk arising from legislative and regulatory provisions, rulings by judiciary or quasi-judiciary authorities as well as legal risk arising from regular Bank operations. The Chief Legal Counsel for the Bank has been appointed Chief Legal Risks Manager. The Bank constantly strives to minimize as much as possible the legal risk associated with its current operations, and acts to disseminate a practical culture leading to identification and mitigation of legal risk in all its different aspects.

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure o, with attention to the different lines of business at the Bank.

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these developments. The Legal Division provides regular counsel to different Bank units, including to some subsidiaries. This is done, *inter alia*, by providing opinion, editing and updating legal documents, support for updates to procedures etc.

The Bank has specified procedures to help in minimizing legal risk, including regulating the interface between the Legal Division and different Bank departments. The Legal Division is also involved in training delivered to branches, at the Bank's Training Center and in compiling professional eLearning kits for imparting the legal knowledge required for regular Bank operations.

Similar reference is made for Bank affiliates overseas (branches and subsidiaries), with these affiliates receiving assistance from local external attorneys approved by the Bank's Legal Division. The Bank's overseas subsidiaries and affiliates have adopted similar procedures with regard to management of legal risk, and provide immediate and quarterly reports to the Legal Risk Manager of the Bank with regard to any legal risk identified in these entities.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 to the financial statements.

Liquidity and financing risk

Management of liquidity and financing risk

Liquidity risk results from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed in conjunction with Proper Conduct of Banking Business regulation 310 "Risk management", regulation 342 "Liquidity risk management" and regulation 221 "Liquidity coverage ratio". Risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policy document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank’s Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio and minimum liquidity ratio - internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines - beyond those specified by the Board of Directors. Risk is regularly managed using endogenous and exogenous indicators of the Bank's situation in particular and of the state of the banking system. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel - this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

Current and periodic management of liquidity risk is conducted on Group basis, with due attention to legal, regulatory and operating restrictions on the capacity to transfer liquidity. Management is conducted in conjunction with the general risk management framework at the Bank. This framework consists of the first line of defense - risk managers at the Finance Division; the second line of defense - risk controllers at the Risks Control Division; and the third line of defense - Internal Audit. Regular management includes monitoring of restrictions set by the Board of Directors and management as well as risk indicators, including with regard to financing source concentration, liquidity exposures at Bank and Group level as well as liquidity gaps resulting from on- and off-balance sheet operations.

The Bank's liquidity management is proactive and strict, including diverse tools for mitigating liquidity risk, both in using detailed models int different world situations, in strict maintenance of liquid means with minimal credit risk which may be immediately realized, and in active management of sources for diversification and extension of the term to maturity and diversification of sources. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which discusses the liquidity situation and strives to align the liquidity "needs" of different Bank units with the liquidity "providers" and liquidity managers. In addition, a forum headed by the Finance Division Manager operates at the Bank, for regular monitoring of the implementation of the minimum liquidity ratio regulation (Regulation 221) and compliance with targets for all business units at the Bank for raising and management of resources. In addition, the Risks Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Directive 342 and in accordance with Basel provisions, which specified internal, system and integrated stress scenarios for Israeli currency and foreign currency, from a one-month perspective, for calculating the minimum liquidity ratio – the ratio of liquidity cushion to net forecasted outflows under these scenarios. This is based on behavioral attributes of depositors and on risk focal points, in line with the various scenarios. As noted above, restrictions have been specified by the Board of Directors and by management for liquidity ratios under various scenarios, including for terms other than one month and in the normal course of business. In 2015 there were no recorded deviations from the Board of Directors' restrictions.

The Bank's Board of Directors and management receive various reports at daily, weekly, monthly and quarterly frequency - including reports of unusual events in liquidity management and unusual developments in the Bank's liquid sources.

The Bank's emergency financing plans refer to management of each emergency and specify the management team responsible for handling it (by level). These plans include detailed specification of additional liquid means for use in emergency as well as a list of operative steps (and the entity authorized to lunch them), also referring to management of communications, both internal and external.

In 2015, the Bank raised the alert status to Higher Alert on several occasions; in all cases, the cause was external to the system, such as the market crash in mid-year due to concern about insolvency of Greece; in actual fact, in all cases there was no impact to Bank liquidity.

Financing risk

Financing risk arises from shortage of financing sources or too high costs for such sources. This risk is managed using Board and management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, client type, individual depositor, number of clients, product and average deposit term. A "super-benchmark" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policy on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

The Bank's main financing sources are stable and diverse sources for different time horizons - retail and business deposits, long-term deposits from financial institutions and debenture issues. The Bank acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with

uniques attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term.
Furthermore, exposures to derivatives are regularly managed. In line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.
For more information about financing risk, see also the Detailed Risk Management Report on the Bank website.
For more information about financing sources, see chapter "Developments in financing sources" above.

Liquidity coverage ratio

As from April 1, 2015, the Bank applies Directive 221 which became effective on that date. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. The minimum regulatory LCR was set at 60% as from April 01, 2015, 80% as from January 01, 2016 and 100% as from January 01, 2017. The Bank's Board of Directors specified a further safety cushion beyond the minimum ratio. This ratio is managed and reported for all currencies on aggregate and for NIS separately, both at Bank level and on Group basis. This regulation is in addition to liquidity risk management using internal models, as stipulated by Regulation 342, as described above.

The average (consolidated) liquidity coverage ratio for the fourth quarter of 2015 was 91% (the minimum ratio required by the Supervisor of Banks was 60%). As of December 31, 2015, the liquidity coverage ratio was at 96%. The ratio increased in this quarter, over the previous quarter, due to net sources in excess of added uses and further improvement of the composition of Bank sources structure, by raising stable financing sources. In 2015 there were no recorded deviations from the restrictions on this ratio.

For more information about liquidity risk, see also the Detailed Risk Management Report on the Bank website.
For more information about the Supervisor of Banks' directives with regard to liquidity risk management and liquidity coverage ratio - see section "Legislation and Supervision of Bank Group Operations" in chapter "Corporate governance" on the financial statements and Note 1 to the financial statements.

Term to maturity – Below is evolution of Bank cash flow by term to maturity, as presented in detail in Note 32 to the financial statements.
The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.
The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2015, was 52% (as of December 31, 2014 - 48%), of which balance sheet sources for terms longer than 1 year - 52% (as of December 31, 2014 - 57%).
Most of the Bank's balance sheet sources in foreign currency as of December 31, 2015 are for terms of up to 1 year, constituting 97% of total foreign currency-denominated sources (as of December 31, 2014 - 96%), of which 23% are sources for terms longer than 3 months (as of December 31, 2014 - 29%).
The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.
The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by term, as part of dynamic management of sources and uses.

Soliciting sources and Bank liquidity status - During 2015, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 152.4 billion on December 31, 2014 to NIS 162.4 billion on December 31, 2015, an increase of 6.6%.

In the non-linked segment, total deposits from the public amounted to NIS 109.1 billion, an increase of 10.8% compared to 2014. In the CPI-linked sector, deposits from the public amounted to NIS 16.8 million, a decrease of 11.6%, and in the foreign currency sector - deposits from the public increased to NIS 36.5 billion, an increase of 4.9% compared to 2014.

As of December 31, 2015, the balance of the three largest depositor groups at the Bank group amounted to NIS 10.4 billion.

Share positions in Bank portfolio

The Bank manages investments in non-banking corporations. Shares of non-banking corporations in which the Bank thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. Investments in non-banking corporations are managed by the Business Banking Division.

About 2% of these investments in non-banking corporations are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment of the investment is made by the Bank.

Bank investments in non-banking corporations as of December 31, 2015 amounted to NIS 101 million, compared to NIS 123 million at end of 2014, as stated below.

Under the available-for-sale securities portfolio:

- NIS 2 million (unchanged from end of 2014) is with respect to negotiable investments.
- NIS 61 million is with respect to participation units in various equity funds (unchanged from end of 2014).
- Investments in several different other corporations, which are stated at cost, the balance of the investment in which totaled NIS 1 million as of December 31, 2015, compared to NIS 8 million as of the end of 2014.

Under investment in associates:

- NIS 16 million (NIS 31 million as of end of 2014) constituting the balance of Bank investment in mezzanine funds. A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.
- NIS 19 million (same as of end of 2014) is the balance of the Bank's investment in Psagot Jerusalem Ltd., a private company which acquired land in the Jerusalem area for residential development. The carrying amount of Bank investments as of December 31, 2015 amounted to NIS 35 million, (same as of end of 2014).
- NIS 2 million (identical amount as of end of 2014) is the balance of the Bank's investment in Rosario Capital Ltd., a private company engaged in underwriting, assistance and consulting on private and public issuance, mergers & acquisitions, investment in securities and distribution of securities.

For more information about equity investments in the bank portfolio, see the Detailed Risk Management Report on the Bank website and Notes 12 and 15.A to the financial statements.

Other risks

Compliance and regulatory risk

Bank business operations are subject to regulation. Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

As from January 1, 2016, when the new Proper Conduct of Banking Business regulation 308 became effective, the scope of responsibility within compliance risk management was expanded; therefore, the compliance provisions include laws, rules and regulations (including positions stated by the Supervisor of Banks in conjunction with handling public inquiries), internal procedures and the Code of Ethics which apply to banking operations at the Bank.

Compliance provisions also include the following laws: ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011; Securities Law 1968; Mutual Investment Act, 1994; Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Act, 1995 (hereinafter: "the Advisory Act"); hereinafter jointly - "securities laws" as well as the Restrictive Trade Practices Act, 1988. Compliance with these laws is also addressed in conjunction with the "Internal Enforcement Program" for Securities Act and for the Restrictive Trade Practices Act, respectively.

Compliance risk includes cross-border risk, which is presented separately below.

The Bank has zero risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. Therefore, the Bank has specified that any faults discovered in compliance with statutory provisions would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.

The compliance and regulatory risk manager for the Bank is the Manager, Risk Control Division. The Compliance Officer is responsible for continuous management of this risk.

Compliance and regulation risk is managed by three lines of defense:

The first line of defense includes business units and other risk-taking units at the Bank, which are responsible for reducing and controlling compliance risk.

The second line of defense includes the Risks Control Division and the Compliance Division, as well as other "second line" units (Human Resources and Administration Division, Accounting and Financial Reporting Division, Legal Division), which are responsible for some compliance areas.

The third line of defense includes Internal Audit, which conducts independent audit of the Compliance Function, including review of the appropriateness and effectiveness of the Compliance Function, including review of controls in line with estimated risk level.

The Manager, Risks Control Division and CRO of the Bank serves as the person in charge of enforcement of securities law and anti-trust law. As required by Proper Banking Conduct Directive 308 ("Compliance Officer"), the Bank appointed a Chief Compliance Officer and a Compliance Function reporting there to (reporting to the Manager, Risk Control Division) whose role is to assist Bank management and the Board of Directors in effective management of compliance risk.

The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank Board of Directors. The Compliance Officer acts in conformity with a letter of appointment approved by the Board of Directors, to deploy a compliance culture at the Bank, its subsidiaries and overseas affiliates by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new clients, or to material changes to any of the above, through various measurement methods, including performance benchmarks.

The Bank also maintains effective enforcement programs for securities law and for anti-trust law, adapted for the Bank and its unique circumstances, as part of overall risk management at the Bank. This is designed to ensure compliance with securities law and to avoid violation thereof. The Chief Enforcement Officer, through the Compliance Officer, handles issues of Bank compliance with obligations arising from securities law in general and in accordance with the enforcement program in particular. The Chief Enforcement Officer is the person responsible, on behalf of Bank management, for on-going implementation of the enforcement program and its deployment across the Bank.

The Compliance Division maps compliance risks in various areas, conducts compliance surveys on different topics from time to time and delivers training to deploy the compliance policy across the Bank. The Compliance Officer is member of different forums at the Bank, in order to ensure an enterprise-wide view of various compliance aspects. In order to ensure compliance with all statutory provisions, as noted above, the Compliance Officer maintains a control system in line with control plans. These controls are designed to verify compliance of Bank branches and departments with various statutory provisions, as well as the effectiveness of controls applied by the various business and headquarters departments.

Cross-border risk

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries - whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk applies primarily at the Bank's overseas affiliates; in transactions with clients who are foreign residents; in business operations conducted by Bank representatives in foreign countries; and with regard to funds of individual Israeli clients invested overseas.

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act - "FATCA"). For more information about FATCA, see chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements.

The cross-border risk manager for the Bank is the Manager, Risk Control Division. The Compliance Officer is responsible for continuous management of this risk.
The Bank has zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.

Cross-border risk is managed by three lines of defense:

The first line of defense includes business units and other risk-taking units at the Bank, is responsible for reducing and controlling cross-border risk. The first line of defense includes International Operations, which is responsible for operations of tourist and private banking branches in Israel and for overseas affiliates of the Bank, through the local compliance unit of each affiliate. The first line of defense also includes the Retail Division and the Business Division in their operations involving foreign resident clients.

The second line of defense is based on the Compliance Division under the Risks Control Division, which is responsible for deploying an organization-wide compliance culture with procedures and laws, for identification and assessment of cross-border risk, for delivering appropriate training and for specifying procedures. To this end, the Compliance Division is assisted by the Legal Division, the Planning and Operations Division which supports the implementation of processes and IT systems and the Technology Division, which develops computer-based tools for risk identification, monitoring and mitigation.

The third line of defense is Internal Audit, which conducts periodic audit of the management of cross-border risk, the processes and procedures related to foreign countries' laws and compliance there with.

As part of management of cross-border risk, the Bank especially monitors and reviews any monetary transactions where any party to such transaction is located in a country subject to international sanctions.

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risks Control Division, is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank Group, including Bank affiliates overseas.

The Compliance Division acts to deploy statutory provisions on this matter. The Division handles subjective reports of unusual activity reported to the AML Authority, and conducts various controls over activity in different accounts based on their risk profile, providing regular advice to branches on this matter and delivers training customized for Bank staff in different roles. Moreover, in line with Bank policies set by the Board of Directors in May 2010, a knowledge test is administered once every two years to all Bank employees. Such a test was conducted in 2014.

The Bank operates different computer systems for identifying unusual activity and for monitoring the handling of subjective reports.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

Reputation risk

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk - with growing demand by clients to withdraw deposits.

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk - even though this risk is considered harder to quantify. Therefore, similar to other risks, the Bank has specified principles for risk management, risk appetite, risk measurement and ways to mitigate it. Accordingly, the Bank incorporated reputation risk into its regular risk management processes, including the process for approval of new products or activities and in self-assessment processes conducted by the Bank and has put in place a framework for regular measurement of this risk. The Bank emphasizes creation of a reporting chain and the required activity under stress conditions, in order to mitigate the impact of such risk, should it materialize. This activity requires identification of risk materialization at the early stages thereof, in order to allow for qualitative and quantitative tools to be applied as early as possible, in order to address this risk.

The Bank Board of Directors has specified specific policy for addressing reputation risk. The Reputation Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank. The policy refers to all Bank subsidiaries and stipulates mandatory reporting and the required actions in case of an event classified as a reputation event. The Bank regularly coordinates with Bank Yahav on this matter.

Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect.

Bank policy also defines the roles of the Risks Manager and stipulates how the risk should be addressed under normal conditions and in case of a stress event. The Risk Manager heads the Reputation Risk Committee, which regularly convenes quarterly and as needed, in case of concern about materialization of a stress event. The Committee routinely discusses the outcome of continuous monitoring of this risk which is conducted, *inter alia*, based on internal and external

information sources, through surveys and studies, on line discourse, media review and reports by other risk managers at the Bank. The work process under stress conditions, i.e. in case of an event which may impact reputation, is incorporated in a specific reporting and action procedure. The objective of this procedure is to define how information is located, the reporting chain, including declaration of a reputation event, how to act during the event and how to declare the event ended, including debriefing and other assessment to review the impact of the event on Bank image, once the event has ended. The Bank has also specified, as part of its business continuity plan, the creation of a media command post, headed by the risk manager, which would allow the Bank to handle reputation risk in case of emergency.
The Bank routinely measures its reputation risk in the capital market, in the public and among clients and the business community. This measurement is based on specific quarterly studies which review public opinion (Bank clients and those of other banks), on monthly monitoring of on line discourse, on satisfaction surveys among Bank clients etc. Reports with regard to reputation risk are sent to Bank management and to the Board of Directors in the quarterly Rsk Exposure Report - as is the case for all risks mapped by the Bank.

During the year there were no events which negatively impacted the Bank's reputation.

Strategic risk

Strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

The Bank acts in line with the strategic outline and risk appetite approved by the Bank’s Board of Directors. Deviation from Bank strategy is subject to approval by the Bank’s Board of Directors. This risk is monitored by the Planning, Operations and Client Asset Division (hereinafter: "the Planning and Operations Division") and is challenged by the Risks Control Division.

The organizational structure for management of this risk includes the Board of Directors and management, the units which implement the strategic plan in business and operational procedures, the Planning and Operations Division and the Risks Control Division. Bank units are responsible for implementation of the strategic plan through annual work plans created in order to achieve the strategic objectives.

The Strategic Risk Manager is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy, monitoring of regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan. The Planning and Operations Division and the Risk Control Division independently monitor strategic risk from different control aspects, primarily the following: achievement of targets, risk mapping and identification, stress testing, threat tests and continuous monitoring of the risk profile in view of the Bank's risk appetite. The latter process is a continuous once, designed to apply diverse tools, primarily reporting tools, in order to ensure that the Bank has not deviated from the specified operating frameworks and exposure caps. In addition to continuous monitoring of the implementation of work plans and aligning them with the strategic outline, the Bank also monitors developments of external factors which may impact the Bank's strategic risk. The work plans of Bank divisions are adapted, when needed, to the changing business environment in order to achieve business targets and the strategic outline. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve. In order to minimize the potential impact to the Bank's business plan, in recent years the Bank emphasized, *inter alia*, the approval process for new products or activities. As part of this process, the new products or activities are reviewed for their business value to the Bank, s. their impact, if any, on the Bank's risk profile and strategic risk.

Developments in the business environment which may impact strategic risk

- In recent years, the global economy has been unstable and economic growth has been more moderate, along with a near-zero interest rate environment and moderate growth in global demand, as well as increased geo-political tension around the world, due to the emergence of Islamic fundamentalism. The economic growth rate in Israel has slowed down in recent years, due to stagnating exports. The Bank regularly monitors the potential implications of a global and local economic slow-down, which may lead to deterioration in the financial standing of households or may impact business activity in various economic sectors. In particular, the Bank is preparing for a potential change in the interest rate trends in the Israeli economy.
- Growing competition in the financial system, in view of expanded operations of non-banking entities, especially in the credit market and given the entry of technology companies into the financial brokerage area, in particular for the household and small business segments.
- The impact of regulatory provisions in core areas of banking operations, including the potential impact of recommendations made by the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee").

Risk factor assessment

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor[1]	Risk factor impact	Risk Owner
Overall effect of credit risk	Low-medium	Manager, Business Division
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low-medium	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest rate risk	Low-medium	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	Manager, Financial Division
Operational risk	Low	Manager, Risk Control Division
Cyber and information security	Intermediate	Manager, Risk Control Division
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Intermediate	Manager, Risk Control Division
Cross-border risk	Intermediate	Manager, Risk Control Division
Anti-money laundering risk	Low-medium	Manager, Risk Control Division
Reputation risk[2]	Low	Manager, Marketing, Promotion and Business Development Division
Strategic-business risk	Low	President & CEO

(1) Assessment of the effect of the aforementioned risk factors takes into account the risk associated with the US DOJ inquiry as well as all action taken by the Bank to defend its position with regard to that inquiry. For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of derivative claim and motion for approval of a class action lawsuit on this matter, see Notes 26.C.11(b-c) and 26.C.12 to the financial statements.

(2) The risk of impairment of the Bank's results due to negative reports about the Bank.

Policy and critical accounting estimates

The consolidated financial statements of the Group are prepared in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of annual financial statements of a banking entity. The significant accounting policies are detailed in Note 1 to the financial statements.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

Provided below are accounting policies on critical matters:

Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and guarantees).
The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit losses.
Such review of debt in order to determine the provision and debt handling is consistently applied to all debt in excess of NIS 700 thousand and in conformity with the Bank's credit management policy - and no transition is made, during the debt term, between the individual review track and the group-based review track - unless in case of restructuring of troubled debt.

Individual provision for credit losses - According to Bank policy, this is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.
Individual provision is also applied to any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt, unless this debt is subject to provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt collection is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative multipliers to reflect, *inter alia*, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses - This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on group estimate, other than housing loans for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is based on rules specified in FAS 5 (ASC 450) "Accounting treatment of contingencies" and other directives specified in Public Reporting Regulations. The provision is based on historical loss rate in various economic sectors, divided into troubled and non-troubled debt, for the 5 years ended on the report date.

In addition to calculating the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.

In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.

Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge).

This is based on a specific directive by the Supervisor of Banks, dated January 19, 2015.

Pursuant to provisions stated in the interim directive, as from January 1, 2011 the Bank is not required to maintain general and supplementary provisions, but continued to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

Housing loans

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Banking Conduct Directive no. 329, as per the Supervisor of Banks' letter dated March 21, 2013 "Update to guidelines with regard to residential real estate".

In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of group provision for credit losses with respect to housing loans shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Off-balance sheet credit

The required provision with regard to off-balance sheet credit instruments is assessed as per rules specified in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as specified in Proper Proper Banking Conduct Directive 203 "Measurement and capital adequacy - Credit risk - Standard approach" with certain adjustments.

Derivatives are treated and presented based on US accounting standards codification ASC 815 and ASC 820. According to the guidelines, all derivatives are stated in the balance sheet at fair value. FAS 157 (ASC 820) defines fair value, and sets forth a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:

Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as set forth under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 - fair value measured by using non-observed data.

The Bank evaluates whether markets on which financial instruments are traded are active, based on the following parameters: Volume and value of transactions conducted on the market, current bid/ask spread and alignment of prices for similar transactions on the same market.

According to the standard, the non-performance risk should be reflected in estimating the fair value of debt, including derivatives, measured at fair value. The Bank estimates credit risk for derivatives using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk element compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

See Note 1.D.16 to the financial statements for further information. For details of derivatives measured at fair value by different fair value levels - see Note 33 to the financial statements.

Securities in the portfolio held for trading and in the portfolio of available for sale securities are stated at fair value, in accordance with the public reporting directives of the Supervisor of Banks. Securities classified in the portfolio held to maturity are measured at amortized cost. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. The Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. The fair value calculation was validated by the Bank's Risks Control Department, which does not participate in the fair value calculation process, assisted by an external professional consultant specializing in models for calculating fair value of financial instruments. Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and its application thereof; and independently reviewing the model in comparison with other models, to the extent possible.

For details of securities measured at fair value by different fair value levels - see Note 33 to the financial statements.

The financial statements as of December 31, 2015 include critical estimates with regard to other-then-temporary impairment of investment in securities, with a total original investment cost of USD 25 million (NIS 98 million). Total impairment recognized as other-than-temporary in nature as amounted to USD 25 million (NIS 98 million). For estimating such impairment, the fair value of investment was calculated based on market prices quoted on the major market. In conformity with regulations and directives of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of such securities is other-than-temporary in nature. It is assumed that impairment compared to deviation of the original investment is not of a temporary nature, primarily in view of the significant decrease, the duration in which the quoted value has not increased, and the erosion of investment's safety cushions. The investment has been fully written-off on the financial statements as of December 31, 2015.

The actual investment value may turn out in future to be materially different from the aforementioned estimate. The future effect on the financial statements may result in recognition of revenues amounting to USD 25 million (NIS 98 million), should it emerge that the impairment is temporary in whole.

The Bank has specified a validation procedure for fair value of instruments measured at fair value on a recurring basis on the financial statements (continued validation), conducted by the Bank's Validation Department. The validation process includes review of the process for determination of fair value, of the assumptions included in this process, of the models used for calculation (including their review, as needed, vs. calculations made by other generally accepted calculation engines) and of input/output data used for calculations and reports.

Liabilities with respect to employee rights are calculated using actuarial models, based on a discount rate determined based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA - and yields to maturity, for the same term to maturity, for US government debentures, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. For details of adoption of US GAAP with regard to employee rights, see Note 1.C.1 to the financial statements.

Group liabilities for employee rights calculated based on an actuarial model amount to NIS 931 million. (Including provision for employee retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employee rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	A 1% increase in discount rate	A 1% change in annual payroll increase		A 1% change in departure rate before retirement age	
		Increase	Decrease	Increase	Decrease
Severance pay provision	(36)	43	(35)	87	(105)
Budgetary pension	(7)	-	-	-	-
Bonuses	(22)	1	(1)	(5)	5

Share-based payment transactions - The financial statements include the benefit value of the stock option plan for the Bank President & CEO and for Bank managers, estimated based on the opinion of an expert external consultant, using generally accepted models, including the Black & Scholes model, the binomial model and the Monte Carlo model, based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's shares and other factors which could affect the economic value of the benefit.

The benefit value is recognized by the Bank over the vesting term of the options using accelerated amortization. For more information see also Note 23 to the financial statements.

The actual benefit value upon exercise of the options is a deductible expense by the Bank for tax purposes, and is subject to payroll tax. The total allowed expense for tax purposes, for which the Bank would record a tax benefit on the profit & loss statement shall not exceed the original benefit value upon option grant. Any tax benefit exceeding this amount would be charged directly to equity.

Some of the Bank's stock option plans include multiple lots which vest on specified dates. The number of options which the offerees may actually exercise, will be primarily based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 14.5%, as well as on other parameters (for more information see Note 23 to the financial statements), based on the exercise eligibility formula, as stated in the option plan. As of December 31, 2015, the number of options which each offeree may exercise have been adjusted based on actual parameters for each year of the plan. Consequently, the total benefit value (whose balance has yet to be recognized as payroll expenses), charged on the financial statements under Payroll Expenses as of December 31, 2015 amounted to NIS 8 million.

Changes to management estimates, to actual return on equity or to other parameters, as noted, compared to the original estimate, would impact the number of stock options which would be granted and consequently - the payroll expense. The total benefit value as listed above may decrease to NIS 3 million, or may increase to NIS 13 million at most.

Provision for legal claims - The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 26.C for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 to the financial statements.

Provision for impairment of non-financial assets is made in accordance with IAS 36 “Impairment of Assets”. Provision for impairment, if needed, is based on assessor valuations updated by the assessor or valuator as required.

Deferred taxes - Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.
Deferred tax are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.
Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.
Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

The consolidated balance sheet as of December 31, 2015 includes deferred taxes, net amounting to NIS 900 million (excludes deferred taxes with respect to securities, which do not affect the provision for taxes). An increase of 1% in tax rates would cause a decrease of NIS 24 million in the provision for taxes. With respect to tax uncertainties, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

Controls and Procedures

In accordance with the Public Reporting Regulations of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Controls and procedures with regard to disclosure

In 2015, controls and procedures with regard to disclosure, concerning the change in layout of the financial statements were adapted. For more information see Note 1 to the financial statements.

Bank management, together with the Bank’s President & CEO and Chief Accountant, have assessed – as of the end of the period reported in this report – the effectiveness of controls and procedures with regard to disclosure at the Bank. Based on this assessment, the Bank’s President & CEO and Chief Accountant concluded that, as of the end of said period, the Bank’s controls and procedures with regard to disclosure are effective in order to record, process, summarize and report the information which the Bank is required to disclose in the annual report, in conformity with Public Reporting Regulations of the Supervisor of Banks upon the date specified in these regulations.

Developments in internal control

During the quarter ended December 31, 2015, no change occurred in the Bank's internal controls over financial reporting (other than the aforementioned developments) that had a material effect, or can reasonably be expected to have an effect on the Bank's internal controls over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, starting with financial statements as of December 31, 2008, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

Moshe Vidman	Eldad Fresher
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan
February 24, 2016

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. ("the Bank") for 2015 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:

A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

B. We have set such internal controls over financial reporting, or had them set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair 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 controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Eldad Fresher
President & CEO

February 24, 2016

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. (“the Bank”) for 2015 (“the Report”).
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders’ equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:

A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

B. We have set such internal controls over financial reporting, or had them set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

C. We have evaluated the effectiveness of the Bank’s disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

D. We have disclosed in this Report any change in the Bank’s internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair 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 controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv
Vice-president, Chief
Accountant

February 24, 2016

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal controls procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2015 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2015, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2015 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co. . ,as noted in their report 211 בעמוד, which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2015.

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president,
Chief Accountant

Approval date:
Ramat Gan, February 24, 2016

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi-Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2015 based on criteria set forth under the integrated framework for internal control (1992) published by the Committee of Sponsoring Organizations of the Tread way Commission ("COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached report of the Board of Directors and management with regard to internal controls over financial reporting, enclosed herewith. We are responsible for our opinion of the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 6.87% and 8.46%, respectively of the referring amounts on the consolidated financial statements as of December 31, 2015 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to design and execute the audit so as to achieve a reasonable degree of certainty as to the existence of effective internal controls over financial reporting, in all material aspects. Our audit included: understanding of the internal controls over financial reporting, evaluation of the risk of existence of any material weakness, testing and evaluation of the effective design and operation of internal control based on the evaluated risk. Our audit also included additional procedures which we believed to be necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to their apparent limitations, internal controls over financial reporting may fail to prevent or discover any misrepresentation. Also, drawing conclusions about the future on the basis of any evaluation of current effectiveness is subject to the risk that controls may become inappropriate due to changes in circumstances or due to negative change in the extent to which policies or procedures are adhered to.

We believe that the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2015 based on criteria set forth in the integrated framework for internal controls (1992) published by COSO.

We have also audited, in accordance with audit standards generally accepted in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's financial statements (and consolidated financial statements) as of December 31, 2015 and 2014 and for each of the three years ended December 31, 2015, and our report dated February 24, 2016 includes our unqualified opinion on the aforementioned financial statements, based on our audit and on reports of other independent auditors, as well as a call for attention with regard to a claim filed against the Bank, including a motion for grant of class action status and with regard to the US Department of Justice inquiry concerning Bank Group business with its US clients.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, February 24, 2016

Independent Auditors’ Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying balance sheets of Mizrahi Tefahot Limited (“the Bank”) as of December 31, 2015 and 2014, and the consolidated balance sheets as of such dates, and the statements of profit and loss, statements of comprehensive income, statements of changes in shareholders’ equity and cash flow statements – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2015. The Bank Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion of these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 6.87% and 6.98% of total consolidated assets as of December 31, 2015 and 2014, respectively and whose net interest revenues before expenses with respect to credit losses, included on the consolidated statements of profit and loss, account for 8.46%, 8.74% and 6.82%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2015, 2014 and 2013, respectively. Furthermore, we have not audited the financial statements of an associate, the investment in which amounts to NIS 19 million as of December 31, 2015 and 2014. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors’ Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above financial statements present fairly, in all material respects, the financial position - of the Bank and on a consolidated basis – as of December 31, 2015 and 2014, and the results of operations, changes in shareholders’ equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2015, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to:

A. Note 26.C.11)A.-G. with regard to lawsuits filed against the Bank and a subsidiary thereof, including motions for class action status.

B. Note 26.C.12) with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2015, based on criteria specified in the integrated framework for internal control published by COSO, and our report dated February 24, 2016 included an unqualified opinion of the effectiveness of internal controls over financial reporting at the Bank.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, February 24, 2016

ANNUAL FINANCIAL STATEMENTS

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Statement of Profit and Loss - Consolidated and the Bank

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	Consolidated			The Bank		
		2015	2014	2013	2015	2014	2013
interest revenues	2	4,906[1]	5,347[1]	6,442	4,555[1]	4,962[1]	6,049
Interest expenses	2	1,372	1,972	2,978	1,487	2,022	3,046
Interest revenues, net		3,534	3,375	3,464	3,068	2,940	3,003
Expenses with respect to credit losses	13,30	211	173	288	200	150	283
Interest revenues, net after expenses with respect to credit losses		3,323	3,202	3,176	2,868	2,790	2,720
Non-interest revenues							
Non-interest financing revenues	3	358	173	14	290	157	26
Commissions	4	1,426[1]	1,395[1]	1,458	1,175[1]	1,144[1]	1,202
Other revenues	5	74	44	27	62	33	19
Total non-interest revenues		1,858	1,612	1,499	1,527	1,334	1,247
Operating and other expenses							
Payroll and associated expenses	6	1,944	1,866[2]	1,823[2]	1,697	1,626[2]	1,565[2]
Maintenance and depreciation of buildings and equipment	16	692	715[2]	690[2]	602	626[2]	595[2]
Other expenses	7	590	458	438	455	338	326
Total operating and other expenses		3,226	3,039	2,951	2,754	2,590	2,486
Pre-tax profit		1,955	1,775	1,724	1,641	1,534	1,481
Provision for taxes on profit	8	761	657[2]	593[2]	656	586[2]	516[2]
After-tax profit		1,194	1,118	1,131	985	948	965
Share in profits (losses) of investees (on consolidated - associates), after tax effect	15	-	5	(4)	149	144	118
Net profit:							
Before attribution to non-controlling interest		1,194	1,123	1,127	1,134	1,092	1,083
Attributable to non-controlling interest		(60)	(31)	(44)	-	-	-
Attributable to shareholders of the Bank		1,134	1,092	1,083	1,134	1,092	1,083

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues as from January 1, 2014, see Note 1.D.4 to the financial statements.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1 C.1 and 1 C.2 to the financial statements.

The accompanying notes are an integral part of the financial statements.

Moshe Vidman	Eldad Fresher	Menahem Aviv
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:

Ramat Gan, February 24, 2016

Statement of Profit and Loss - Consolidated and the Bank - continued
For the year ended December 31,

Reported amounts

	Note	2015	2014[2]	2013[2]
Earnings per share[1]	9			
Basic earnings per share (in NIS)				
Net profit attributable to shareholders of the Bank		4.90	4.74	4.74
Diluted earnings per share (in NIS)				
Net profit attributable to shareholders of the Bank		4.89	4.71	4.71

(1) Share of NIS 0.1 par value.
(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1 C.1 and 1 C.2. to the financial statements.

The accompanying notes are an integral part of the financial statements.

Consolidated statement of comprehensive income
For the year ended December 31,

Reported amounts (NIS in millions)

	2015	2014[1]	2013[1]
Net profit:			
Before attribution to non-controlling interest	1,194	1,123	1,127
Attributable to non-controlling interest	(60)	(31)	(44)
Net profit attributable to shareholders of the Bank	1,134	1,092	1,083
Other comprehensive income (loss) before taxes			
Adjustments for presentation of available-for-sale securities at fair value, net	(27)	(10)	22
Adjustments from translation of financial statements of investments in associates[2]	(1)	6	(3)
Net gain (loss) with respect to cash flows hedging	(6)	23	-
Adjustment of liabilities with respect to employee benefits[3]	(3)	(46)	(19)
Total other comprehensive income (loss), before tax	(37)	(27)	-
Related tax effect	13	10	(3)
Other comprehensive income (loss) after taxes[4]			
Other comprehensive income (loss), before attribution to non-controlling interest	(24)	(17)	(3)
Less other comprehensive income (loss) attributable to non-controlling interest	(1)	2	2
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes	(25)	(15)	(1)
Comprehensive income:			
Before attribution to non-controlling interest	1,170	1,106	1,124
Attributable to non-controlling interest	(61)	(29)	(42)
Comprehensive income attributable to shareholders of the Bank	1,109	1,077	1,082

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.
(2) Adjustments from translation of financial statements of associates.
(3) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(4) For details see Note 10 to the financial statements - Cumulative Other Comprehensive Income.

The accompanying notes are an integral part of the financial statements.

Balance sheet – consolidated and the Bank - as of December 31

Reported amounts (NIS in millions)

	Note	Consolidated		The Bank	
		2015	2014	2015	2014
Assets					
Cash and deposits with banks	11	30,489	26,798	24,265	22,425
Securities(1)(2)	12	11,845	14,259	11,804	12,053
Securities loaned or purchased in resale agreements	27	71	107	71	107
Loans to the public	13,30	160,604	148,912	152,326	141,265
Provision for credit losses	13,30	(1,400)	(1,343)	(1,348)	(1,293)
Loans to the public, net		159,204	147,569	150,978	139,972
Loans to Governments	14	316	307	316	307
Investments in investees (for consolidated - associates)	15	36	52	2,659	2,511(4)
Buildings and equipment	16	1,583	1,570(4)	1,344	1,384(4)
Intangible assets and goodwill	15.D	87	87	-	-
Assets with respect to derivative instruments	28	3,527	5,602	3,526	5,600
Other assets	17	2,000	2,162(4)	1,800	1,964(4)
Total assets		209,158	198,513	196,763	186,323
Liabilities and Equity					
Deposits from the public	18	162,380	152,379	164,208	151,834
Deposits from banks	19	1,166	1,258	9,602	8,333
Deposits from the Government		58	55	38	46
Securities loaned or sold in conjunction with repurchase agreements		-	223	-	223
Debentures and subordinated notes	20	23,719	20,580	3,127	3,777
Liabilities with respect to derivative instruments	28	3,634	6,497	3,631	6,496
Other liabilities(3)	30.E, 21	5,786	6,217(4)	4,310	4,817(4)
Total liabilities		196,743	187,209	184,916	175,526
Shareholders' equity attributable to shareholders of the Bank		11,847	10,797(4)	11,847	10,797(4)
Non-controlling interest		568	507(4)	-	-
Total equity	24	12,415	11,304	11,847	10,797
Total liabilities and equity		209,158	198,513	196,763	186,323

(1) Of which: NIS 8,429 million at fair value on consolidated basis (December 31, 2014 - NIS 8,896 million) and for the Bank - NIS 8,388 million (December 31, 2014 - NIS 8,541 million).
(2) For more information with regard to securities pledged to lenders, see Note 27 to the financial statements.
(3) Of which: provision for credit losses with respect to off-balance sheet credit instruments, consolidated - NIS 106 million (on December 31, 2014 - NIS 102 million) and at the Bank - NIS 105 million (on December 31, 2014 - NIS 101 million).
(4) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Shareholders' Equity
For the year ended December 31,

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2013	2,058	139	(76)	2,121
Cumulative effect, net of tax, of retroactive application of US accounting rules with regard to employee rights[5]	-	-	-	-
Balance as of January 1, 2013 after initial application of new rules[5]	2,058	139	(76)	2,121
Net profit for the period[5]	-	-	-	-
Dividends paid[6]	-	-	-	-
Benefit from share-based payment transactions	-	14	-	14
Related tax effect	-	13	-	13
Realization of share-based payment transactions[2]	50	(50)	-	-
Other comprehensive income (loss), net, after tax[5]	-	-	-	-
Balance as of December 31, 2013[5]	2,108	116	(76)	2,148
Net profit for the period[5]	-	-	-	-
Benefit from share-based payment transactions	-	40	-	40
Related tax effect	-	(1)	-	(1)
Realization of share-based payment transactions[2]	89	(89)	-	-
Other comprehensive income (loss), net, after tax[5]	-	-	-	-
Balance as of December 31, 2014[5]	2,197	66	(76)	2,187
Net profit for the period	-	-	-	-
Dividends paid[6]	-	-	-	-
Benefit from share-based payment transactions	-	20	-	20
Related tax effect	-	7	-	7
Realization of share-based payment transactions[2]	25	(25)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of December 31, 2015	2,222	68	(76)	2,214

(1) Share premium generated prior to March 31, 1986.
(2) In 2015, the Bank issued 1,086,264 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued to the President 74,647 ordinary shares of NIS 0.1 par value each.
In 2014, the Bank issued 1,240,933 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan.
In 2013, the Bank issued 2,378,980 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan.
(3) For details see Note 10 to the financial statements - Cumulative Other Comprehensive Income.
(4) For more information about various limitations on dividend distributions, see Note 24 to the financial statements.
(5) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.
(6) On June 14, 2015 and September 17, 2015, the Bank paid dividends amounting to NIS 36.6 million and NIS 49.5 million, respectively, in conformity with a decision by the Bank Board of Directors. On February 24, 2016, the Bank Board of Directors resolved to distribute dividends amounting to NIS 36 million with respect to earnings in the fourth quarter of 2015.

The accompanying notes are an integral part of the financial statements.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total shareholder equity	Non-controlling interest	Total equity
-	6,609	8,730	441	9,171
(56)	(27)	(83)	(5)	(88)
(56)	6,582	8,647	436	9,083
-	1,083	1,083	44	1,127
-	(75)	(75)	-	(75)
-	-	14	-	14
-	-	13	-	13
-	-	-	-	-
(1)	-	(1)	(2)	(3)
(57)	7,590	9,681	478	10,159
-	1,092	1,092	31	1,123
-	-	40	-	40
-	-	(1)	-	(1)
-	-	-	-	-
(15)	-	(15)	(2)	(17)
(72)	8,682	10,797	507	11,304
-	1,134	1,134	60	1,194
-	(86)	(86)	-	(86)
-	-	20	-	20
-	-	7	-	7
-	-	-	-	-
(25)	-	(25)	1	(24)
(97)	9,730	11,847	568	12,415

Statement of Cash Flows - Consolidated and the Bank

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Cash flows provided by current operations						
Net profit	1,194	1,123[1]	1,127[1]	1,134	1,092[1]	1,083[1]
Adjustments						
Bank's share of undistributed (earnings) loss of associates	-	(5)	4	(149)	(144)	(118)
Depreciation of buildings and equipment	223	246	245[1]	196	220	217[1]
Expenses with respect to credit losses	211	173	288	200	150	283
Loss (gain) from sale of securities available for sale	(118)	(110)	(51)	(117)	(110)	(37)
Loss (gain) from sale of securities held to maturity[2]	(67)	-	-	-	-	-
Impairment of securities held for sale	-	2	3	-	2	3
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	5	(4)	(38)	5	(4)	(38)
Gain from sale of buildings and equipment	(36)	(10)	-	(36)	(10)	-
Expenses arising from share-based payment transactions	20	40	14	20	40	14
Deferred taxes, net	27	21[1]	(84)[1]	27	26[1]	(89)[1]
Change in employee provisions and liabilities	(10)	(21)	5	(12)	(15)	(10)
Effect of changes in exchange rate on cash balances	183	(545)	332	179	(515)	311
Proceeds from sale of loan portfolios	(1)	-	-	(1)	-	-
Net change in current assets						
Deposits with banks	2,967	346	1,322	2,134	(10)	470
Loans to the public	(12,453)	(9,177)	(10,202)	(11,813)	(8,515)	(9,584)
Loans to Governments	(9)	(2)	12	(9)	(2)	12
Securities loaned or purchased in resale agreements	36	(37)	137	36	(37)	137
Assets with respect to derivative instruments	2,069	(1,973)	(88)	2,068	(1,975)	(84)
Securities held for trade	807	522	780	807	522	778
Other assets, net	191	90	(87)	193	138	(73)
Net change in current liabilities						
Deposits from banks	(92)	(783)	347	1,269	418	(289)
Deposits from the public	10,001	11,135	13,163	12,374	14,078	14,960
Deposits from the Government	3	(7)	(45)	(8)	(5)	(42)
Securities loaned or sold in conjunction with repurchase agreements	(223)	223	-	(223)	223	-
Liabilities with respect to derivative instruments	(2,863)	2,959	(235)	(2,865)	2,959	(236)
Other liabilities	(464)	123[1]	633[1]	(538)	90[1]	538[1]
Accrual differences included under investment and financing operations	(399)	(181)	537	(268)	(142)	336
Net cash provided by current operations	1,202	4,148	8,119	4,603	8,474	8,542

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(2) Proceeds from sale of debentures held to maturity at Bank Yahav. See also Note 25 to the financial statements.

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - Consolidated and the Bank - continued
For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Cash flows provided by investment operations						
Acquisition of debentures held to maturity	-	(3,477)	(646)	-	(3,400)	-
Proceeds from sale of debentures held to maturity[2]	1,917	-	-	-	-	-
Acquisition of securities available for sale	(10,497)	(12,930)	(2,942)	(10,318)	(12,715)	(2,942)
Proceeds from sale of securities available for sale	9,603	8,658	4,197	9,470	8,647	2,761
Proceeds from redemption of securities available for sale	761	153	674	401	124	638
Proceeds from sale of loan portfolios	590	-	-	590	-	-
Acquisition of buildings and equipment	(233)	(286)[1]	(228)[1]	(153)	(232)[1]	(195)[1]
Proceeds from sale of buildings and equipment	55	21	-	55	21	-
Proceeds from realized investments in associates	15	17	(6)	19	29	(7)
Net cash provided by investment operations	2,211	(7,844)	1,049	64	(7,526)	255
Cash flows provided by financing operations						
Issuance of debentures and subordinated notes	7,502	5,809	3,007	417	-	-
Redemption of debentures and subordinated notes	(3,988)	(1,574)	(1,057)	(845)	(169)	(406)
Dividends paid to shareholders	(86)	-	(75)	(86)	-	(75)
Net cash provided by financing operations	3,428	4,235	1,875	(514)	(169)	(481)
Increase (decrease) in cash	6,841	539	11,043	4,153	779	8,316
Cash balance at beginning of year	23,651	25,105	14,394	20,167	20,947	12,942
Effect of changes in exchange rate on cash balances	(183)	545	(332)	(179)	515	(311)
Cash balance at end of year	30,309	26,189	25,105	24,141	22,241	20,947
Interest and taxes paid / received						
Interest received	5,080	5,929	6,596	5,149	5,086	6,085
Interest paid	1,591	1,760	3,032	2,387	2,509	3,079
Dividends received	10	8	1	10	8	1
Taxes on income received	69	80	5	68	79	1
Taxes on income paid	738	800	654	627	705	623
Appendix A - Non-cash Transactions						
Acquisition of buildings and equipment	22	10	5	22	10	5

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2 to the financial statements.

(2) Proceeds from sale of debentures held to maturity at Bank Yahav. Also, see Note 25 below.

Notes to financial statements as of December 31, 2015

Note 1 - Reporting Principles and Accounting Policies

A. Overview

1) The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks. See also "Principles of financial reporting" below.

2) The notes to the financial statements refer to the financial statements of the Bank, as well as to the consolidated financial statements of the Bank and its subsidiaries, unless a note explicitly states that it refers only to the statements of the Bank, or to the consolidated statements.
The Bank Board of Directors authorized publication of these financial statements on February 24, 2016.

3) Definitions

"Generally accepted accounting principles for US banks"	Accounting rules which US banks traded in the USA are required to apply as stipulated In (ASC 105) FAS 168 as part of codification of accounting standards of the US Financial Accounting Standards Board and other US entities. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team thereof, with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.
"International Financial Reporting Standards"	Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include international financial reporting standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.

Note 1 - Reporting Principles and Accounting Policies - continued

"FASB"	Financial Accounting Standards Board in the USA.
"The Bank"	Mizrahi-Tefahot Bank Ltd.
"Subsidiaries"	Companies controlled by the Bank.
"Bank Group"	The Bank and its subsidiaries.
"Associates"	Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associates is included on the financial statements using the equity method.
"Investees"	Subsidiaries and associates.
"Overseas affiliates"	Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency"	The currency of the major economic environment in which the Bank operates. Usually, this is the currency of the environment in which a corporation generates and expends most of the cash.
"Presentation currency"	The currency in which the financial statements are presented.
"Adjusted amount"	Historical nominal amount, adjusted for changes in the economic purchase power of Israeli currency.
"Reported amount"	An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
"Cost"	Cost in reported amount.
"Related parties"	As defined in Section 80 of the Public Reporting Directives.
"Interested parties"	As defined in Section 80 of the Public Reporting Directives.

B. Principles of financial reporting

These financial statements have been prepared as follows:

1) As for core banking business issues - the accounting treatment is in accordance with directives of the Supervisor of Banks (hereinafter: "the Supervisor") and in accordance with generally accepted accounting principles for US banks, as adopted in the Supervisor of Banks' Public Reporting Directives. Core banking business issues were defined by the Supervisor of Banks as financial instruments, including *inter alia*: hedge accounting, revenue recognition, provision for credit losses, employee rights, contingent liabilities and provisions, transactions with related parties, presentation of financial statements and segment reporting.

Note 1 - Reporting Principles and Accounting Policies - continued

2) As for non core banking business issues - the accounting treatment is in accordance with Israeli GAAP and in accordance with certain International Financial Reporting Standards (IFRS) and the IFRIC interpretations pertaining there to.

In conformity with Public Reporting Directives of the Supervisor of Banks, international standards are applied based on the following principles:

- In cases where a material issue arises, which is not addressed by the international standards or by application directives issued by the Supervisor of Banks, the Group shall handle the issue in accordance with generally accepted accounting principles at US banks which specifically apply to these issues.
- In cases where no specific reference is made in the standards or interpretations of material issues, or where there are multiple alternatives for handling a material issue, the Group shall act in accordance with specific application directives issued by the Supervisor of Banks.
- In cases where the adopted international standard makes reference to another international standard adopted under the Public Reporting Directives, the Group shall act in accordance with provisions of the international standard.
- In cases where the adopted international standard makes reference to an international standard not adopted under the Public Reporting Directives, the Group shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the adopted international standard makes reference to definition of a term also defined in the Public Reporting Directives, the reference to the definition in the directives shall replace the original reference.

3) Functional currency and reporting currency

The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the primary economic environment in which the Bank does business. For information about the functional currency of overseas banking affiliates, see section 1.D. below.

4) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:

– Financial derivatives and other financial instruments measured at fair value on the statement of profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
– Financial instruments classified as available for sale;
– Share-based payments;
– Non-current assets held for sale and asset group held for sale;

- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employee benefits;
- Investments in associates

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

5) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact policies implementation and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.

When making accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In exercising its judgment when making these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.

These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.

C. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

For periods starting on or after January 1, 2015, unless otherwise noted, the Bank first applies accounting standards and directives of the Supervisor of Banks. Below is a description of the substance of changes in accounting policies on the financial statements and description of the effect of their initial application, if any:

1) Adoption of US GAAP with regard to employee rights

On April 9, 2014, the Supervisor of Banks issued a circular concerning adoption of US GAAP with regard to employee rights. These principles were codified in the following codification sections (hereinafter: "the Circular"):

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

Note 1 - Reporting Principles and Accounting Policies - continued

In addition to application of these principles, the circular includes specific directives for implementation in Israel, as follows:

The discount rate used to calculate reserves and to cover employee rights would be based on market yield of government debentures in Israel.

According to the circular, the principle previously set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation - should be maintained. It is expected that in cases where the Bank expects payment of benefits beyond contractual terms, they would adjust these to situations where a material obligation exists.

Banking corporations should classify employee benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employee benefits fall into the following categories:

- Benefits prior to termination
- Benefits post termination and prior to retirement
- Post-retirement benefits

The circular stipulated that amendments to Public Reporting Directives would apply as from January 1, 2015 and upon initial application, the Bank would retroactively revise the comparative figures for periods starting on or after January 1, 2013.

On January 11, 2015, the Supervisor of Banks issued a circular concerning employee rights - discount rate, disclosure format and transition provisions for initial application. Later on, on January 12, 2015 the Supervisor issued a Q&A file on this topic. The circular notes that the Bank of Israel has concluded that in Israel there was no deep market in highly rated corporate debentures. Accordingly, the discount rate for employee benefits is to be calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA - and yields to maturity, for the same term to maturity, for US government debentures, all as of the reporting date.

Furthermore, the circular revises the disclosure requirements with regard to employee rights and with regard to share-based payments, in conformity with generally accepted accounting principles for US banks.

Highlights of changes in policies with regard to employee rights

Post-retirement benefits - pension, severance pay and other benefits - defined-benefit programs:

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly reviews the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' regulations with regard to internal controls over financial reporting with regard to employee rights, including with regard to review of an "essential commitment" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation - paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without accounting for any discount rates or actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

Share-based payment transactions:

The Bank recognizes expenses with respect to share-based payments made to Bank employees.

As for an award in the gain track, tax authorities in Israel allow an expense to be recognized upon option exercise, hence a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense carrying amount, multiplied by the tax rate. Upon exercise of the options, when the allowed income tax expense exceeds the expense carried, the difference would be charged to shareholder equity. Any final tax benefit which is lower than the accrued tax benefit would be offset against accrued tax benefits in the capital reserve down to zero and the balance is charged to the Statement of Profit and Loss upon realization.

Note 1 - Reporting Principles and Accounting Policies - continued

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates, it was stipulated:

The actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) - and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") would be included under Accumulated Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Accumulated Other Comprehensive Income and would decrease the loss balance recorded as noted above - down to zero.

Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

The effect of the initial application on other employee benefits, in which all changes are regularly charged to Profit and Loss, would be charged to retained earnings.

Accounting policies prior to application of the new regulations:

- The discount rate for provisions is 4%, as stipulated by the Supervisor of Banks.
- Actuarial gains and losses are immediately charged to Profit and Loss.
- In conformity with the Supervisor of Banks' directives with regard to internal controls over financial reporting with regard to employee rights, the severance pay liability shall be presented at (1) the amount of liability calculated on actuarial basis, accounting for the additional cost expected to be incurred with respect to providing such benefits, or (2) the liability amount calculated as the product of the employee's monthly salary and his number of years in service, as required by Accounting Opinion 20 of the Institute of Certified Public Accountants in Israel - whichever is higher.
- The tax benefit with respect to share-based payment transactions is charged to Profit and Loss in accordance with the naive price of the share measured on a regular basis. In similar fashion, the accrued payroll tax expenses are also charged to the statement of profit and loss.
- For more information about the accounting policies applied by the Bank with regard to employee rights and share-based payment transactions, prior to application of the new regulations, see Note 1.P. and 1.Q. to the financial statements as of December 31, 2014.

Upon application of the provision, the Bank completed the process of mapping the various rights and benefits of Bank employees which are affected by application of the new standards.

In conformity with transition provisions specified in Proper Banking Conduct Directive no. 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20%. At 40% as from January 1, 2015 and an additional 20% per year, through full application as from January 1, 2018

The effect on the Tier I shareholders' equity ratio as of January 1, 2015 is a decrease of 0.03%.

In conformity with transitional provisions of the Supervisor of Banks for implementation of this regulation, the Bank is not required to restate the capital adequacy data presented in the financial statements as published.

The 2015 financial statements include disclosure with regard to the effect of this circular on comparison periods for 2013 and 2014, as presented on the financial statements. Disclosure is also provided on the effect of initial adoption as of January 1, 2013, in a separate item on the statement of changes to shareholders' equity and in Note 10 about cumulative other comprehensive income. This item would clarify, *inter alia*, the cumulative effect on retained earnings and the cumulative effect recorded in cumulative other comprehensive income under "Adjustments with respect to employee benefits". Furthermore, disclosure is provided in Note 22 with regard to employee rights, in conformity with the format specified by the Supervisor of Banks.

Below is the cumulative effect of initial adoption of US GAAP with regard to employee rights as of January 1, 2013: Decrease in retained earnings amounting to NIS 27 million, recognition of negative capital reserve amounting to NIS 56 million for cumulative other comprehensive income under "Adjustments with respect to employee benefits". The negative capital reserve was recognized with respect to actuarial loss due to the difference between the discount rate for calculation of provisions to cover employee rights linked to the Consumer Price Index, stipulated by interim provisions of the Public Reporting Regulations (4%) and discount rates as of that date for CPI-linked employee liabilities as determined in conformity with US GAAP. The decrease in shareholders' equity attributable to shareholders of the Bank amounts to NIS 83 million.

For more information about the effect of initial application of the new rules with regard to employee rights on the Bank's balance sheet balances, capital adequacy ratios, profit and loss. other comprehensive income and cash flows statement data - see section C.2 below.

2) Application of the Supervisor of Banks' directives concerning capitalization of software costs

On May 21, 2015, the Bank of Israel sent a letter to the Bank, containing directives with regard to capitalization of in-house software development costs (similar directives were applied by some other banking corporations in the 2014 financial statements).

The letter noted that the process of capitalization of in-house software development costs is a material process for the financial reporting by the Bank and given the accounting complexity associated with this process, reinforcement of internal controls over this process are required.

Note that the Bank applies IAS 38 "Intangible Assets" as well as provisions of SOP 98-I - "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use".

Below are key directives included in the letter, to be applied as from the financial statements as of June 30, 2015.

- Setting of a materiality threshold for each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total software cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours - factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.
- Other directives to reinforce control over the process of software cost capitalization.

According to the letter, the Bank may treat the aforementioned requirements as a change in accounting policy, including retroactive application of the policy to comparative figures.

According to the directive, the Bank retroactively applies the directives as from the financial statements as of June 30, 2015, including by restatement of comparative figures.

Below is information about the effect of the initial application of new rules with regard to employee rights and further effect of application of the Supervisor of Banks' directives with regard to capitalization of software costs on balance sheet balances, capital adequacy ratios, profit and loss. other comprehensive income and cash flows statement data of the Bank:

Consolidated balance sheet data:

	As of December 31, 2014 (audited)			
	Amount presented in these financial statements	Effect of retroactive application with respect to Employee rights	Effect of retroactive application with respect to Software cost capitalization	In conformity with previous provisions
Buildings and equipment	1,570	-	(132)	1,702
Other assets	2,162	81	-	2,081
Other liabilities	6,217	180	(35)	6,072
Retained earnings	8,682	3	(97)	8,776
Cumulative Other Comprehensive Income (Loss)	(72)	(96)	-	24
Shareholders' equity attributable to shareholders of the Bank	10,797	(93)	(97)	10,987
Non-controlling interest	507	(6)	-	513
Total equity	11,304	(99)	(97)	11,500
Ratio of Tier I capital to risk elements	9.05	-(1)	(0.07)	9.12
Total ratio of capital to risk elements	12.97	-(1)	(0.06)	13.03

(1) According to the transition provisions, no restatement is required of capital adequacy figures with regard to effect of retroactive application with respect to employee rights.

Note 1 - Reporting Principles and Accounting Policies - continued

Consolidated statement of profit and loss data:

	For the year ended December 31, 2014 (audited)				For the year ended December 31, 2013 (audited)			
	Amount presented in these financial statements	Effect of retroactive application with respect to Employee rights	Effect of retroactive application with respect to Software cost capitalization	In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to Employee rights	Effect of retroactive application with respect to Software cost capitalization	In conformity with previous provisions
Profit and loss								
Payroll and associated expenses	1,866	(5)	2	1,869	1,823	(16)	3	1,836
Maintenance and depreciation of buildings and equipment	715	-	10	705	690	-	7	683
Provision for taxes on profit	657	(13)	(3)	673	593	4	(3)	592
Net profit before attribution to non-controlling interest	1,123	18	(9)	1,114	1,127	12	(7)	1,122
Net profit attributed to non-controlling interest	(31)	-	-	(31)	(44)	-	-	(44)
Net profit attributable to shareholders of the Bank	1,092	18	(9)	1,083	1,083	12	(7)	1,078
Basic earnings per share attributable to shareholders of the Bank	4.74	0.08	(0.04)	4.70	4.74	0.06	(0.04)	4.72
Diluted earnings per share attributable to shareholders of the Bank	4.71	0.07	(0.04)	4.68	4.71	0.05	(0.03)	4.69

Other comprehensive income data:

	For the year ended December 31, 2014 (audited)				For the year ended December 31, 2013 (audited)			
	Amount presented in these financial statements	Effect of retroactive application with respect to Employee rights	Effect of retroactive application with respect to Software cost capitalization	In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to Employee rights	Effect of retroactive application with respect to Software cost capitalization	In conformity with previous provisions
Other comprehensive income								
Adjustment of liability with respect to employee benefits	(46)	(46)	-	-	(19)	(19)	-	-
Related tax effect	17	17	-	-	7	7	-	-
After-tax other comprehensive income (loss) before attribution to non-controlling interest	(17)	(29)	-	12	(3)	(12)	-	9
Other comprehensive loss (income) attributable to non-controlling interest	2	1	-	1	2	-	-	2
Other comprehensive income (loss) attributable to shareholders of the Bank	(15)	(28)	-	13	(1)	(12)	-	11

Note 1 - Reporting Principles and Accounting Policies - continued

Cash flow data:

	For the year ended December 31, 2014				For the year ended December 31, 2013			
				(audited)				(audited)
		Effect of retroactive application with respect to		In conformity with previous provisions		Effect of retroactive application with respect to		In conformity with previous provisions
	Amount presented in these financial statements	Employee rights	Software cost capitaliza-tion		Amount presented in these financial statements	Employee rights	Software cost capitaliz-ation	
Statement of cash flows								
Net cash provided by (used in) current operations	4,148	-	(12)	4,160	8,119	-	(8)	8,127
Net cash provided by (used in) investment operations	(7,844)	-	12	(7,856)	1,049	-	8	1,041

The cumulative effect of retroactive application with respect to capitalization of software cost, which was charged as adjustment to opening balance of retained earnings as of December 31, 2012 (the earliest period presented on these financial statements on the statement of changes in shareholders' equity), is a decrease in retained earnings amounting to NIS 81 million.

3) Reporting in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity

On September 30, 2014, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity.

According to this circular, the Public Reporting Directives have been amended such that a banking corporation is required to adopt generally accepted accounting principles in the USA with regard to classification as liability or equity of financial instruments, including hybrid instruments, including the presentation, measurement and disclosure rules set forth in provisions of accounting standard codification 480 with regard to "distinguishing between liabilities and equity", provisions of accounting standard codification 470-20 with regard to "debt with conversion and other options" and provisions of accounting standard codification 505-30 with regard to "treasury shares". Furthermore, in distinguishing between liabilities and equity, reference should be made to Public Reporting Directives with regard to embedded instruments.

Note 1 - Reporting Principles and Accounting Policies - continued

Concurrently with issuing the aforementioned circular, the Supervisor of Banks issued a Q&A file, which clarified that debt instruments which contain a contingent conversion component into shares, should be classified as a liability carried at amortized cost, without detaching the embedded derivative.

The amendment of the Public Reporting Directives on this matter has no impact on the Bank's financial statements.

The Bank applies provisions of the circular as from January 1, 2015.

4) Liquidity coverage ratio and relevant disclosure requirements

On September 28, 2014, the Supervisor of Banks issued a new Proper Banking Conduct Directive no. 221 concerning "Liquidity coverage ratio".

The regulation adopts Basel III recommendations with regard to liquidity coverage ratio for the Israeli banking system.

Concurrently, on September 28, 2014, the Supervisor issued an amendment to the Public Reporting Directives, which stipulates disclosure of the liquidity coverage ratio (to be calculated as per Proper Banking Conduct Directives with regard to liquidity coverage ratio) on the financial statements, under the Note "Capital Adequacy and Liquidity". Further, on September 30, 2014 the Supervisor issued a Q&A file on this topic.

According to the directive, the minimum required LCR would be 60% as from April 1, 2015, 80% as from January 1, 2016 and 100% as from January 1, 2017.

In conformity with these regulations, disclosure of the liquidity coverage ratio is required in the Note "Capital Adequacy and Liquidity" as from April 1, 2015.

The Bank applies the directives and is in compliance with its specified requirements as from April 1, 2015.

The Bank's liquidity coverage ratio as of December 31, 2015 (in terms of simple averages of daily observations) was 91%.

See Note 25 to the financial statements for additional information.

5) Leverage ratio and relevant disclosure requirements

On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio".

The directive adopts the Basel Committee recommendations and stipulates minimum leverage ratio requirements for banking corporations.

Note 1 - Reporting Principles and Accounting Policies - continued

Below are key provisions of this directive:

- Banking corporations shall maintain a leverage ratio of 5% or higher on a consolidated basis. A banking corporation whose total balance sheet assets, on a consolidated basis, account for 20% or more of total balance sheet assets of the banking system - shall maintain a leverage ratio of 6% or higher.
- The leverage ratio, in percent, is defined as the ratio of capital measure to exposure measure.
- Capital for measurement of the leverage ratio is Tier I capital, as defined in Proper Banking Conduct Directive 202, taking into consideration the stipulated transition provisions.
- Total exposure measure for the Bank is the sum of balance sheet exposures, exposures to derivatives and off-balance sheet items. In general, this measurement would be consistent with accounting values and would not account for risk weighting - as is the case for provisions with regard to capital adequacy. Exposure with respect to derivatives would be calculated as per Appendix III to Directive 203. In conformity with the directive, banking corporations would no longer be allowed to use physical or financial collateral, guarantees or other techniques to mitigate credit risk, to reduce exposure measurement - unless specifically allowed by the directive. Balance sheet items deducted from Tier I capital (pursuant to Directive 202) may be deducted from the exposure measure. Exposures with respect to off-balance sheet items would be calculated by converting the par value of the off-balance sheet liability using the credit conversion coefficients stated in Directive 203.

The start date for compliance with the leverage ratio is January 1, 2018. Any banking corporations which do not meet the requirements of this directive are required to increase their leverage ratio at fixed quarterly steps by January 1, 2018. However, banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation.

Along with publication of this directive, the Supervisor of Banks also issued an amendment to Public Reporting Directives with regard to disclosure of the leverage ratio, which includes additional required disclosure in the financial statements with regard to the leverage ratio, including disclosure in the Board of Directors' report with regard to the leverage ratio, description of the Supervisor of Banks' requirements with regard to the leverage ratio, potential (or actual) effects of failure to comply with these requirements as well as disclosure with regard to the leverage ratio in the Note on capital adequacy, liquidity and leverage In the financial statements.

The disclosure with regard to the leverage ratio applies as from April 1, 2015; comparison figures for prior periods need not be revised.

The Bank applies the directives and is in compliance with its specified requirements as from April 1, 2015.

The Bank's leverage ratio as of December 31, 2015 is 5.32%. See Note 25 to the financial statements for additional information.

6) Updated format of public reports by a banking corporation

On April 28, 2015, the Supervisor of Banks issued a circular concerning updated structure of public reports by a banking corporation and by credit card companies. The objectives of this circular include, inter alia: Improve the quality of public reporting by making the information in the public report more useful and accessible; enhance uniformity in presentation of the reports in the banking system; and formulate the outline for the public report to be based on leading presentation practices of leading banks in the USA and in Europe. The circular refers, *inter alia*, to addition of a review by the Chairman of the Board of Directors before the Board of Directors' report and management discussion; change in presentation order of the financial statements; presentation of the statement of profit and loss before the balance sheet; presentation of result-related notes before balance sheet-related notes; division of the Note concerning "Credit risk, loans to the public and provision for credit losses" into a summary showing totals by major credit type and more extensive information, to be presented in a separate Note. The circular also significantly revises the outline of disclosures in the Board of Directors' report, eliminates Management Discussion while integrating the disclosures provided therein in other chapters of the public report and stipulates requirements for expanded on line reporting with regard to risks and improved readability of the financial statements. The Bank applies provisions of this circular as from the 2015 public report.

Application of the provisions of this circular have no effect on the Bank's financial statements, other than presentation and disclosure, as noted above.

7) Disclosure concerning interested and related parties

On June 10, 2015, the Supervisor of Banks issued a circular with regard to "Disclosure concerning interested and related parties". This circular revises the Public Reporting Directives concerning such disclosure, in line with changes to Proper Banking Conduct Directive 312 "Banking Corporation's Business with Related Parties". The circular also aligns the disclosure on this matter with US GAAP, as prescribed by ASC 850. After this amendment, information on this matter in the public report is provided for each officer in conformity with Securities Regulations, Related Person pursuant to Directive 312 and any other related party in conformity with US GAAP for banks. The Bank applies the directives as from January 1, 2015.

Application of these directives has no effect on the Bank's financial statements, other than the disclosure with regard to related parties. For more information see also Note 34 to the financial statements "Interested and Related Parties".

8) Update to Q&A file concerning implementation of Public Reporting Directives with regard to impaired debt, credit risk and provision for credit losses

On September 10, 2015, the Supervisor of Banks issued a Q&A file concerning implementation of Public Reporting Directives with regard to impaired debt, credit risk and provision for credit losses This Q&A file clarified requirements for specifying the threshold for conducting an individual review for impairment; it further clarified that it was not permitted to change the method of review of impairment for credit losses with respect to specific debt, other than in case of restructuring of problematic debt. In addition, rules have been specified for accounting write-off with respect to problematic debt for which the provision is assessed on a group basis, if it was subject to a restructuring that has failed. The Bank will apply the Directive prospectively. Initial implementation of the directives stipulated in the updated Q&A file has no material impact on the financial statements.

9) Reporting of supervisory operating segments and geographic regions

On November 3, 2014, the Supervisor of Banks issued an amendment of the Public Reporting Directives with regard to supervisory operating segments, as well as a Q&A file on this topic. The circular revised the Public Reporting Directives with regard to required reporting of supervisory operating segments and modified certain definitions and directives, whereby banks are required to classify clients into supervisory segments.

The major changes to the Public Reporting Directives according to this Q&A file are as follows:

- Added was a requirement for disclosure of "supervisory operating segments", based on definitions by the Supervisor of Banks. The disclosure layout includes the following segments: private banking, households, very small and small business, mid-size business, large business, institutional entities and financial management.
- Additional definitions clarify which clients are to be included in each segment.
- An additional requirement stipulates separate disclosure of the "Financial management" segment.
- It has been clarified that a banking corporation where, according to its management approach, the operating segments differ materially from the supervisory operating segments - should also provide disclosure of the operating segments based on its management approach.
- It has been clarified that the disclosure requirements in the Board of Directors' report and in the interim directive with regard to "Description of the banking corporation's business and forward-looking information in the Board of Directors' report" shall refer to disclosure of supervisory operating segments.

The directive is applicable, with regard to balance sheet data, as from the 2015 financial statements. The other requirements, except for the required detailed disclosure for the financial management segment, would apply as from the financial statements for the first quarter of 2016. Provisions of the circular, including the required detailed disclosure for the financial management segment, would apply in full as from the first quarter of 2017.

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to client categorization by operating segments based on their revenues - when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize clients into operating segments based on other parameters, in line with total client indebtedness. Thus, in some cases listed in the Q&A file, clients may be categorized based on the number of employees or total assets on their balance sheet. If this information is not available either, clients may be categorized, in such cases, based on their total financial assets with the bank, multiplied by a specified factor.

Application of the new directives has no material impact on the Bank's financial statements, other than the in presentation and disclosure. Notes 28 and 28A have been revised to include the new disclosure, subject to the aforementioned transitional provisions. For more information, see section D.19 below.

10) Credit risk by economic sector

On April 9, 2014, the Supervisor of Banks issued a circular with regard to credit risk by economic sector. This circular adopts the uniform economic sector classification - 2011, as published by the Central Bureau of Statistics. In conformity with this circular, the Bank has adjusted the disclosure with regard to credit exposures by economic sector, to align it with the new classification and definitions with regard to the various sectors.
The Bank applies the directives prospectively as from January 1, 2015.
Application of this directive has no material impact on the Bank's financial statements.

D. Accounting policy applied in preparing the financial statements

1) Foreign currency and linkage:

A. Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Bank and its affiliates (NIS) using the exchange rate as of the transaction date. Monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.
Exchange rate differences with respect to monetary items are the differences between the amortized cost in the functional currency as of the start of the year, adjusted for the effective interest and installments during the year, and the amortized cost in foreign currency, translated at the exchange rate as of the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined. Exchange rate differences arising from translation into the functional currency are recognized in the statement of profit and loss, other than differences arising from translation into the functional currency of cash flow hedges, as well as adjustments to fair value of investments of certain funds accounted for using the equity method, which are recognized in the statement of Other Comprehensive Income.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

B. Overseas banking affiliates

According to directives by the Supervisor of Banks prior to adoption of IFRS, an overseas banking affiliate of a banking corporation was classified as a foreign operation whose functional currency is the same as that of the banking corporation.

Pursuant to IAS 21 and to the Supervisor of Banks' circular on this matter, dated February 14, 2012, in order to determine the functional currency, the banking corporation is required to consider, inter alia, the following:

- The currency which primarily affects the selling price of goods and services (usually this would be the currency in which selling prices of goods and services are denominated and settled), and the currency of the country whose competitive forces and regulation primarily determine the selling prices of goods and services.
- The currency which primarily affects labor costs, material and other costs for delivery of goods or services (usually, this would be the currency in which these costs are denominated and settled).
- Other factors which may serve as evidence of the entity's functional currency, such as: The currency in which monetary resources are generated by financing operations, and the currency in which receipts from current operations are usually kept.

- Relations of the affiliate with the Bank - is the foreign operation significantly independent, do transactions between the affiliate and the Bank constitute a large or small percentage of the foreign operation, do cash flows from the foreign operation directly affect the cash flows of the Bank and are readily available to be transferred there to, and are cash flows from the foreign operation sufficient to fund its current and anticipated liabilities in the normal course of business of the entity, without resources being provided by the Bank.
- Does the affiliate recruit clients by itself and is affiliate business with Bank clients (not recruited by the affiliate) not significant.
- Affiliate operations with the Bank, such as asset and liability balances or revenues and expenses, are not significant.
- Affiliate operations are essentially independent, stand alone and are not an extension of or complementary to the Group's domestic operations. Furthermore, the affiliate conducts its operations with significant autonomy.

Note 1 - Reporting Principles and Accounting Policies - continued

Based on review of these criteria, the Bank continues to treat its overseas banking affiliates as operations whose functional currency is the same as the Bank's (NIS).

Below is information about major official exchange rates, the Consumer Price Index and changes there to:

	As of December 31			Change in %		
	2015	2014	2013	2015	2014	2013
Consumer Price Index:						
CPI for December (points)	106.3	107.4	107.6	(1.0)	(0.2)	1.8
Known CPI for November (points)	106.4	107.4	107.5	(0.9)	(0.1)	1.9
Exchange rate of:						
USD (in NIS)	3.902	3.889	3.471	0.3	12.0	(7.0)
EUR (in NIS)	4.247	4.725	4.782	(10.1)	(1.2)	(2.8)

2) Consolidation basis

A. **Business combinations**

The Bank applies the acquisition method to all business combinations.

The acquisition date is the date on which the acquiring entity achieves control over the acquired entity. The acquiring entity controls the acquired entity when it is exposed to, or has an interest in variable returns from its involvement with the acquired entity and is able to influence these returns through its influence over the acquired entity. When reviewing for existence of control, we account for real interest of the acquiring entity and of others.

The Bank recognizes goodwill as of the acquisition date at fair value of the consideration, including amounts recognized with respect to any non-controlling interest in the acquired entity, and the fair value as of the acquisition date of equity interest in the acquired entity previously held by the Bank, less the net amount attributed upon acquisition to identifiable assets acquired and liabilities assumed.

In conformity with directives of the Supervisor of Banks, the Bank has adopted the relief set forth in sections C4 and C5 of IFRS 1 "First-time Adoption of International Financial Reporting Standards". Accordingly, the Group applies IFRS 3 prospectively to financial statements for periods starting on January 1, 2011, so that no reattribution of excess cost was made for acquisitions prior to application of the standard. Amortization of goodwill with respect to investments to be made prior to application of the standard were discontinued, and in lieu, the need for making a provision for impairment of other-than-temporary nature is periodically reviewed.

Should any acquisitions be made after January 1, 2011, the Bank would recognize goodwill as of the acquisition date at fair value of the consideration, including amounts with respect to any non-controlling interest in the acquired entity, and the fair value as of the acquisition date of equity interest in the acquired entity previously held by the Bank, less the net amount attributed upon acquisition to identifiable assets acquired and liabilities assumed.

The Bank will recognize upon acquisition a contingent liability assumed upon business combination, if there is a present obligation due to past events, and its fair value may be reliably measured.

Note 1 - Reporting Principles and Accounting Policies - continued

B. **Subsidiaries**

Financial statements of subsidiaries are included on the consolidated financial statements from the date control is achieved and through the date control is terminated. Control is the power to determine financial and operational policies of an entity to achieve benefits from their operations . The Bank exercised judgment in determining the acquisition date and whether or not control has been achieved.

Accounting policies of subsidiaries were modified as needed, to align it with the accounting policies adopted by the Group.

C. **Investments in associates**

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

In conformity with IAS 28, investment in associates is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs. The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and Other Comprehensive Income of investees accounted for using the equity method, after required adjustments to the accounting policies of the associate to align it with that of the Group, as from the date on which material influence exists until such material influence ceases to exist.

The Bank does not make adjustments to accounting policies with regard to core banking business issues (issues where IFRS are yet to be adopted by the Public Reporting Directives) applied by a non-banking associate which reports in conformity with IFRS.

When the Group's share of loss exceeds the value of Group interest in an entity accounted for using the equity method, the carrying amount of these rights (including any long-term investment) is completely written-off, and the Group recognizes no further loss, unless the Group is committed to support the investee, or if the Group has paid any amounts in on its behalf.

D. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements. Unrealized gain from transactions with associates have been canceled against the investment, in accordance with Group rights in these investments. Unrealized losses haves been canceled in the same manner as cancellation of unrealized gains, provided there was no evidence of impairment.

Note 1 - Reporting Principles and Accounting Policies - continued

E. Non-controlling interest

Non-controlling interest is any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company, which is measured at fair value as of the business combination date.

Attribution of Comprehensive Income to shareholders

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and Other Comprehensive Income are attributed to the controlling shareholder of the Bank and to non-controlling interests, even if this results in a negative balance of non-controlling interests.

3) Offset of assets and liabilities

The Bank applies the rules specified in the Supervisor of Banks' circular dated December 12, 2012.

In conformity with the directives, a banking corporation should offset assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are fulfilled:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities
- The banking corporation intends to repay the liabilities and realize the assets on net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

According to the directives, a banking corporation should offset assets and liabilities with two different counter-parties and present the net amount on the balance sheet when all of the aforementioned conditions are fulfilled, and provided that the three parties have an agreement which clearly stipulates the banking corporation's set-off rights with regard to those liabilities.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

A banking corporation should not offset assets with respect to derivatives against liabilities with respect to derivatives, unless all of the aforementioned conditions are fulfilled. However, the directives stipulate that under certain conditions, a banking corporation may offset fair value amounts recognized with respect to derivative instruments and fair value amounts recognized with respect to the right to call cash collateral (receivables) or the commitment to reimburse cash collateral (payables) arising from derivative instruments transacted with the same counter-party in accordance with a master netting arrangement – even if there is no intention to repay on net basis or concurrently.

Moreover, a banking corporation may offset securities purchased in conjunction with repurchase agreements against securities sold in conjunction with repurchase agreements, if certain conditions specified in US GAAP on this matter are fulfilled.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Note 1 - Reporting Principles and Accounting Policies - continued

Currently, it is Bank policy to present exposures with transactions on gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

4) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-performing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the impaired debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period for the outstanding recorded debt balance at the contractual interest rate. Interest revenues on cash basis are classified as interest revenue under the relevant item on the statement of profit and loss.
When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to housing loans are recognized in the statement of profit and loss based on actual collection.

Impaired debt under restructuring is treated as debt accruing interest revenues if all of the following conditions are fulfilled:

- After restructuring, the debt is reasonably certain to be fully repaid under the new terms.
- The agreement is complied with for at least six months for debt repaid by monthly installments, or over 20% for debt with longer maturities.
- The restructured debt is not 90 days or more in arrears.

2) Securities - see section 5 below.

3) Financial derivative instruments - see section 15 below.

b) Commission revenues with respect to services rendered (such as: activities in securities and derivative instruments, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in the statement of profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project assistance, are recognized gradually over the transaction term.

c) Other revenues and expenses - are recognized on an accrual basis.

Note 1 - Reporting Principles and Accounting Policies - continued

d) As from January 1, 2014, the Bank applies the directives specified in the Supervisor of Banks' circular with regard to adoption of generally accepted accounting principles for banks in the USA with regard to measuring interest revenues (ACS 310-20) which stipulates, *inter alia*, rules for treatment of changes to terms and conditions of debt and early repayment commissions.

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms and conditions of the loan. Accordingly, the Bank reviews whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions, or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

Early repayment commissions charged with respect to early repayment made prior to January 1, 2014 and yet to be amortized, are recognized over a three-year period or the remaining term of the loan, whichever is shorter. Commissions charged with respect to early repayment made after January 1, 2014, are immediately recognized under Interest Revenues.

Below is information about the impact of application of the directive on net interest revenues, non-interest revenues (from commissions) and net profit for the Bank for the year ended December 31, 2014 (NIS in millions):

	For the year ended December 31, 2014
	(audited)
	Effect of application of the directive
Interest revenues, net	153
Non-interest (commission) revenues	(92)
Net profit	38

5) Securities

A. Investments in securities were classified into three categories, as follows:

1) Debentures held to maturity - debentures that the Bank has the intention and ability to hold until maturity date. These debentures are presented at their amortized cost, i.e. at par value plus accrued interest and linkage or exchange rate differentials, plus or minus the discount or premium component generated upon acquisition and not yet amortized and minus loss with respect to other-than-temporary impairment. Income from debentures held to maturity is charged accordingly to the statement of profit and loss on accrual basis.

Note 1 - Reporting Principles and Accounting Policies - continued

2) Securities held for trade - securities acquired or held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. These securities were included on the balance sheet at fair value as of the reporting date; unrealized gain or loss from adjustment to fair value was charged to the statement of profit and loss.

3) Securities available for sale - securities not classified as debentures held to maturity or as securities held for trade. Securities available for sale are presented on the balance sheet at fair value. Shares having no available fair value are presented at fair value as of the date they were received – which does not exceed their cost – and net of provision for impairment which is not of a temporary nature, which is charged to the statement of profit and loss, as are dividends received from investment in shares available for sale, originating from earnings of a company which are distributed after the investment date.

   Any unrealized gain or loss from adjustment to fair value is not included in the statement of profit and loss and is reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income. For securities which include embedded derivatives – see section 15.C below.

B. For more information about realization of the debenture portfolio held to maturity by Bank Yahav in the third quarter of 2015, see Note 25 to the financial statements.

C. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are charged to profit & loss when the Bank has the right to receive them, up to the amount of accumulated gain since this investment was acquired.

D. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of a hedge, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

E. With regard to calculation of fair value, see section 16 below.

F. Impairment:

   Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below the cost there of (or the amortized cost for debentures held to maturity), is of an other-than-temporary nature.

To this end, the following indicators, inter alia, are reviewed:

- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Review of conditions reflecting the financial standing of the issuer, including whether or not the impairment is due to individual reasons related to the issuer, or to any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:

- The security was sold prior to publication of the financial statements for that period.
- The Bank intends, as of the publication of the financial statements for that period, to sell the security within a short time.
- Debenture is significantly impaired between its rating upon acquisition by the Bank and its rating upon publication of the financial statements for that period.
- Debenture classified by the Bank as problematical after its acquisition.
- Debenture which is in payment default after its acquisition.
- Security where, in general, its fair value as of the end of the reported period and soon prior to publication of the financial statements, is significantly lower than its cost (amortized cost), or where any payment failure has occurred after its acquisition, unless proven with a high degree of confidence and based on objective evidence, that the impairment is merely of a temporary nature.

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written-off to its fair value, such that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are charged to a separate item under shareholders' equity under Cumulative Other Comprehensive Income, and are not recognized in the Statement of Profit and Loss.

6) Impaired debt, credit risk and provision for credit losses

A. Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Directives, in position statements and directives of the Supervisor of Banks. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' directive with regard to treatment of troubled debt. Moreover, as from January 1, 2013, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debt and of provision for credit losses.

Note 1 - Reporting Principles and Accounting Policies - continued

B. Loans to the public and other debt balances

The directive is applied to all debt balances, including deposits with banks, debentures, securities borrowed or purchased in repurchase agreements, loans to the public and loans to the government. Loans to the public and other debt balances for which no specific rules on measurement of provision for credit losses were specified in the Public Reporting Regulations (such as: loans to the government, deposits with banks and other assets) are reported on the Bank's accounts at their recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for said debt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed.

As for other debt balances, for which there are specific rules in place with regard to measurement and recognition of a provision for impairment (such as debentures), the Bank continues to apply the measurement rules as specified in section 5 above.

C. Identification and classification of problematic debt

The Bank classifies all problematic debt and problematic off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected.

In conformity with Bank policy, debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank would be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Banking Conduct Directive 314 on problematic debt in housing loans.

Policy on debt restructuring and treatment of problematic debt in restructuring – It is Bank policy that, in general, when it is possible to reach agreement on debt repayment with no impact to collateral available to the Bank and without any legal action, it would be preferable to reach agreement on debt repayment.

In order to improve collection and to avoid, in as much as possible, any debt collection failure - the Bank attempts to reach arrangements for debt repayment, prior to and even while conducting legal proceedings; these may include a postponed debt repayment, re-scheduled debt repayment, reduced interest rate, modified repayment schedule, change in debt terms and conditions to align it with the borrower's financing structure, consolidation of borrower debt, debt assignment to other borrowers within a borrower group under joint control, review of financial covenants imposed on the borrower etc."

Note 1 - Reporting Principles and Accounting Policies - continued

Debt which has been formally restructured as problematic debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).

In order to determine whether debt restructuring by the Bank constitutes problematic debt restructuring, the Bank conducts a qualitative review of all restructuring terms and circumstances in order to determine whether the debtor is in financial duress and whether: (1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the restructuring.

In order to determine whether the creditor is in financial duress, the Bank reviews for indications of the creditor being in financial duress at the time of restructuring, or for reasonable likelihood that the creditor would be in financial duress if not for the restructuring. Inter alia, the Bank reviews the existence of one or more of the following circumstances: As of the debt restructuring date, the borrower is in default, including when any other debt of the borrower is in default; for debt which, as of the restructuring date, is not in arrears, the Bank assesses whether, based on the current repayment capacity, it is likely that in the foreseeable future the borrower would be in default and would fail to comply with original contractual conditions of the debt; the creditor has declared bankruptcy, is in Receivership or there is significant doubt as to the borrower continuing as a going concern; and without changes to debt terms, the debtor would not be able to raise funds from other sources at market interest typical for debtors not in default.

The Bank concludes that a concession was made to the creditor in conjunction with the restructuring, even if the contractual interest rate was increased in the restructuring - if one or more of the following exists: Due to the restructuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debt contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the creditor is unable to raise funds at market rates for debt with similar terms and conditions to those of the restructured debt.

The Bank does not classify debt as restructured problematic debt, if in conjunction with the restructuring, it granted to the creditor a delay in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple restructurings took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous restructurings in order to determine whether the delay in payments is not material.

Note 1 - Reporting Principles and Accounting Policies - continued

Restructured debt, including debt assessed on group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses. Since the debt being restructured would not be repaid as per its original contractual terms, the debt continues to be classified as impaired debt even after the debtor resumes repayments pursuant to the new terms and conditions.

- When the debtor has become well-secured and is in collection proceedings.

Notwithstanding the foregoing, for debt reviewed on group basis which has been restructured as troubled debt which has failed, an accounting write-off is made no later than the date when the debt is in arrears 60 days or longer.

Reinstatement of impaired debt to non-impaired status - impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).

Rules governing reinstatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of problematic debt.

Reinstatement of impaired debt to impaired and accruing status - debt which has been formally restructured, such that after restructuring all of the following conditions are fulfilled:

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms and conditions, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms and conditions.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

D. Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and guarantees).

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit losses.

Note 1 - Reporting Principles and Accounting Policies - continued

Such review of debt in order to determine the provision and debt handling is consistently applied to all debt in excess of NIS 700 thousand and in conformity with the Bank's credit management policy - and no transition is made, during the debt term, between the individual review track and the group-based review track - unless in case of restructuring of problematic debt, as noted above.

Individual provision for credit losses – According to Bank policy, this is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

Individual provision is also applied to any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt, unless this debt is subject to provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt collection is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative multipliers to reflect, *inter alia*, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses - This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on group estimate, other than housing loans for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is based on rules specified in FAS 5 (ASC 450) "Accounting treatment of contingencies" and other directives specified in Public Reporting Regulations. The provision is based on historical loss rate in various economic sectors, divided into troubled and non-troubled debt, for the 5 years ended on the report date.

In addition to calculating the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.

In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.

Note 1 - Reporting Principles and Accounting Policies - continued

Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge).

This is based on a specific directive by the Supervisor of Banks, dated January 19, 2015.

Pursuant to provisions stated in the interim directive, as from January 1, 2011 the Bank is not required to maintain general and supplementary provisions, but continued to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

Housing loans

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Banking Conduct Directive no. 329, as per the Supervisor of Banks' letter dated March 21, 2013 "Update to guidelines with regard to residential real estate".

In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of group provision for credit losses with respect to housing loans shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Off-balance sheet credit

The required provision with regard to off-balance sheet credit instruments is assessed as per rules specified in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as specified in Proper Proper Banking Conduct Directive 203 "Measurement and capital adequacy - Credit risk - Standard approach" with certain adjustments.

E. Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of interest revenues with respect to it, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on cash basis with respect to debt classified as impaired, see section 4 above.

For debt reviewed and provided for on group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debt is subject to assessment of provision for credit losses, which ensures that Bank profit is not skewed upwards.

F. Accounting write-off

The Bank makes accounting write-offs of any debt, or part of it, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection effort by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses amounting to the recorded debt balance in excess of the fair value of collateral. For debt assessed on group basis, write-off rules have been put in place based on extent of arrears (mostly - over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

Debt which has been reviewed on group basis and classified as impaired due to restructuring of problematic debt, are subject to accounting write-off no later than the date when the debt is in arrears 60 days or longer, with regard to terms and conditions of such restructuring.

G. Policies on provision for doubtful debts prior to application of directives on impaired debt, credit risk and provision for credit losses.

Prior to January 1, 2011, the provision for doubtful debts was specifically determined, and a general provision and supplementary provision were also included, as per directives of the Supervisor of Banks.

The supplementary provision for doubtful debts is based on the quality of client indebtedness portfolio, based on risk attributes as defined in directives of the Supervisor of Banks. The supplementary provision for doubtful debts is calculated using percentages specified for each of these risk attributes. The general provision is in amounts adjusted for the end of 2004, an amount which constituted 1% of total indebtedness under responsibility of the Bank and banking investees as of December 31, 1991.

As from January 1, 2011 the Bank is not required to maintain general, supplementary and special provisions doubtful debts, but continues to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

H. Disclosure requirements

The Bank applies the disclosure requirements with regard to credit quality of debt and of provision for credit losses, as stipulated in ASU 2010-20, which stipulates wider disclosure of debt balances, movement in balance of provision for credit losses, material acquisition and sale of debt during the reported period and indications of credit quality.

Furthermore, as from the 2015 financial statements, in conformity with directives of the Supervisor of Banks with regard to change in layout of the financial statements, the Bank presents a summary of highlight information about credit risk, loans to the public and provision for credit losses (see Note 13 to the financial statements) and additional information about credit risk as noted (see Note 30 to the financial statements). For more information about credit risk, see also the detailed Risk Management Report on the Bank website.

7) Transfer and service of financial assets and discharge of liabilities

The Bank applies measurement and disclosure rules specified in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and discharge of liabilities", as amended by FAS 166, "Transfer and service of financial assets" (ASC 860-10), for handling the transfer of financial assets and discharge of liabilities.

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other form of Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated on the financial statements there of, or agents there of, do not retain effective control over the financial assets or beneficiary interests related to these transferred assets. As from January 1, 2012, the Bank applies ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules stated in FAS 166 (ASC 860).

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt.

When all of the following conditions are satisfied, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price.
- The agreement is made simultaneously with the transfer.

Note 1 - Reporting Principles and Accounting Policies - continued

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the right should represent a right interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory rights pro-rata to their ownership share rights are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory rights (other than in case of breach of representation or obligation, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory rights); and the transferor and the holder of participatory rights have no right to pledge or replace the financial asset in whole, unless all holders of participatory rights agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt - that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner any liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Such loaning and borrowing are treated as credit or deposit, measured at fair value of the related security. Revenues on accrual basis with respect to such securities are recognized as interest income from credit and changes to fair value (in excess of changes to accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of securities available for sale.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and is no longer liable for said liability; or (b) the Bank was legally released of the liability by a judicial process or by consent of the lender, being the major party liable for said liability.

8) Buildings and equipment

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-created assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.

In conformity with Public Reporting Regulations, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.

When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items.

Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its carrying amount and are recognized, net, under "Other revenues" in the statement of profit and loss.

Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss. For more information about impairment, see section N. below.

Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software.

Cost recognized as an intangible asset with respect to development activities includes direct cost of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.

In subsequent periods, capitalized development cost is measured a t cost net of accumulated amortization and impairment loss.

For information about application of the Supervisor of Banks' directives concerning capitalization of software costs - see section C.2 above.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the useful life, whichever is shorter. Owned land is not depreciated.

An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.

For more information about estimated useful life of buildings and equipment, as of December 31, 2015, see Note 16 to the financial statements.

9) Intangible assets and goodwill

Goodwill is not systematically depreciated. For more information about treatment of goodwill, see section 2.A. above. Development cost of acquired software or cost capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

10) Leases

Leases, including land leases from the Israel Land Administration ("ILA") or from third parties, where the Bank essentially bears all risk and reward associated with the property, are classified as financing leases. Upon initial recognition, leased assets are measured at their fair value or the present value of minimum future leasing fee, whichever is lower. Future payments for exercise of an option to extend the lease term with ILA are not recognized as part of the referring asset and liability, since they constitute contingent leasing fee, derived from the fair value of the land upon future renewal dates of the lease. Other leases are classified as operating leases, and the leased assets not recognized in the Bank's balance sheet.

Pre-paid leasing fee paid to ILA with respect to land leases classified as operating leases are presented on the balance sheet as pre-paid expenses, and are recognized in the statement of profit and loss over the lease term. The lease term and amortization amounts account for any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.

In a lease for land and buildings, the land and building components are individually reviewed for the purpose of classifying such leases; the key consideration in classification of the land component is the fact that land typically has an unspecified useful life.

Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.

Minimum leasing fees payable for a financing lease are divided into financing expenses and reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance. Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.

Note 1 - Reporting Principles and Accounting Policies - continued

11) Impairment of non-financial assets

In case of sale and re-leasing, the type of lease (financing or operating) should be identified. For operating lease - the capital gain from the sale is deferred and attributed over time, if the sale price exceeds the fair value of the asset. For financing lease - the capital gain from the sale is deferred and attributed over time.

Determination of cash-generating units

For review of impairment, assets which may not be individually reviewed are grouped into the smallest asset group which generates cash flows from continued use, which are essentially independent of other assets and groups ("cash-generating unit").

Upon each balance sheet date, a review is made for indications of impairment of various assets within the scope of IAS 36. For some assets, the review for impairment is annual if there are no indications of impairment, namely:

a) Intangible asset not yet ready for use;
b) Assets with unspecified useful life; and
c) Goodwill acquired upon business combination.

Goodwill allocation to cash-generating units

For reviewing goodwill for impairment, cash-generating units to which goodwill has been allocated are grouped so that the level at which goodwill is reviewed for impairment reflects the lowest level where goodwill is monitored for internal reporting - but not above an operating segment (before grouping of similar segments).

In cases where goodwill is not monitored for internal management purposes, goodwill is allocated to operating segments (before grouping of similar segments) and not to cash-generating units (or groups of cash-generating units) smaller than an operating segment.

Goodwill acquired in conjunction with business combination is allocated to cash-generating units, including existing ones within the Group prior to such business combination, which are expected to benefit from synergies of such business combination.

Bank headquarters assets

Bank headquarter assets do not generate separate cash flows and serve multiple cash-generating units. Some headquarters assets are allocated to cash-generating units on reasonable, consistent basis and are reviewed for impairment as part of impairment review of the cash-generating units to which they are allocated.

Other headquarters assets, which may not be reasonably and consistently allocated to cash-generating units, are allocated to groups of cash-generating units if there are indicators of impairment of an asset belonging to headquarters, or when there are indicators of impairment of the group of cash-generating units. In such case, the recoverable amount of the group of cash-generating units served by the headquarters is determined.

Note 1 - Reporting Principles and Accounting Policies - continued

Recognition of impairment loss

Impairment loss is recognized when the carrying amount of the asset or of the cash-generating unit exceeds the recoverable amount (which is the higher of the fair value net of selling expenses of the asset (or cash-generating unit) or its value in use) - and is charged to the statement of profit and loss. For cash-generating units which include goodwill, impairment loss is recognized when the carrying amount of the cash-generating unit, after gross-up of the goodwill balance, includes its recoverable amount. Impairment loss recognized with respect to cash-generating units are first allocated to write-down of the carrying amount of goodwill allocated to said units and then, to write-down of the carrying amount of other assets of the cash-generating unit, *pro-rata*.

Allocation of impairment loss to non-controlling interest

Impairment loss is allocated to equity holders of the Bank and to non-controlling interest on the same basis as allocation of profit or loss.

Reversal of impairment loss

Impairment loss with respect to goodwill is not reversed. As for other assets, for which impairment loss has been recognized in previous periods, on each report date a review is conducted as to any indications that such loss has decreased or has been eliminated. Impairment loss is reversed in case of change to estimates used to determine the recoverable amount - but only if the carrying amount of the asset, after reversal of impairment loss, does not exceed the carrying amount net of depreciation or amortization, which would have been determined if no impairment loss had been recognized.

Impairment of cost of in-house development of computer software

In addition to impairment indicators listed in IAS 36 "Impairment of assets", a review for impairment of cost of in-house development of computer software is also conducted if there are any indicators listed in generally accepted accounting principles for banks in the USA for banks:

SOP 98-1: Accounting for the Costs of Computer Software Developed Or; Obtained for Internal Use (ASC 350-40)

- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made;
- The cost of development or adaptation of software for in-house use significantly exceeds the anticipated amount;
- It is no longer expected that software development would be completed and that the software would be used.

If one or more such indications exist, a review for impairment should be conducted in conformity with the rules stipulated in IAS 36 "Impairment of Assets".

Note 1 - Reporting Principles and Accounting Policies - continued

Investments in associates

Investment in an associate is reviewed for impairment when there is objective evidence indicating impairment, in conformity with IAS 39 "Financial instruments: recognition and measurement" and in conformity with ISA Resolution 1-4 "Guidelines for review of the need to amortized permanent investments".

Goodwill which is part of the investment in the associate is not recognized as a separate asset - and therefore it is not separately reviewed for impairment. Impairment is reviewed for the investment as a whole. If there is objective evidence of potential impairment of an investment, the Group estimates the recoverable amount of the investment - which is its value in use or its net sale price, whichever is higher.

When determining the value in use of the investment, the Group estimates its share of the present value of estimated future cash flows to be produced by the associate, or the present value of estimated future cash flows expected from dividends received from this investment and from its final realization.

Impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount and is recognized under "Bank share of after-tax profit of associates" on the statement of profit and loss. Impairment loss is not allocated to any asset, including to goodwill which is part of the investment in the associate. Impairment loss is only reversed in case of changes to estimates used to determine the recoverable amount of the investment, since the date on which impairment loss was most recently recognized. The carrying amount of the investment, after reversal of impairment loss, may not exceed the carrying amount of the investment which would have been determined using the equity method if no impairment loss had been recognized. Reversal of impairment loss is charged to "Bank share of after-tax profit of associates".

12) Contingent liabilities

The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

A. Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.

B. Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.

Note 1 - Reporting Principles and Accounting Policies - continued

C. Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 26.C.11 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

13) Employee rights

For more information about adoption of US GAAP for employee rights, see section C.1 above. For more information about different benefit types, see Notes 22 and 23 to the financial statements.

14) Share-based payment transactions (employee stock options)

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options awarded to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the awarded options. Expenses are recognized based on fair value of the options on the award date, concurrently with increase in capital over the term of service for which the options are awarded.

When determining the fair value of options upon the award date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit award) have no impact on determining fair value upon the award date and are reflected in current expensing of the benefit awarded. As allowed by the standard, the Bank treats each awarded lot as a separate award.

As for an award in the gain track, tax authorities in Israel allow an expense to be recognized upon option exercise, hence a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense carrying amount, multiplied by the tax rate. Upon exercise of the options, when the allowed income tax expense exceeds the expense carried, the difference would be charged to shareholder equity. Any final tax benefit which is lower than the accrued tax benefit would be offset against accrued tax benefits in the capital reserve down to zero and the balance is charged to the Statement of Profit and Loss upon realization.

Note 1 - Reporting Principles and Accounting Policies - continued

15) Derivative instruments and hedging activities

A. The Bank trades in financial derivatives, including currency and interest contracts and credit derivatives. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risk, including basis and interest rate risk – risk to which the Bank is exposed in its day-to-day activities.

B. Derivatives are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivatives, other than derivatives used as cash flow hedges, are recognized on the Statement of Profit and Loss.

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.
A detached embedded derivative is stated in the balance sheet together with the host contract. Change in fair value of detached embedded derivatives is immediately charged to profit and Loss.

D. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policies was adopted for structured securities in the available-for-sale portfolio.

E. The Bank designates certain derivatives as fair value hedges or as cash flow hedges. The Bank formally documents in writing all of the hedging relationships between the hedging financial derivatives and the hedged items, as well as the objective and strategy of the management of risk through the creating of a hedge transaction. The documentation includes identification of the asset designated as the hedged item and states the manner in which the hedging instrument is expected to hedge the risk related to the hedged item. The Bank estimates the effectiveness of the hedging relationship at the inception of the hedge and continuously, in accordance with its risks management policies. Based on the above, a determination is made as to whether the derivative qualifies as a hedge in accordance with Public Reporting Directives.

F. Changes in the fair value of an item hedged by a fair value hedge using a derivative that meets the above conditions, arising from changes in the specified risk factors, are recorded currently to the statement of profit and loss, concurrent with the changes in the fair value of the hedging derivative.
Changes in the fair value of a derivative which qualifies as a cash flow hedge, which arise from changes in the risk factor being hedged (which impacts the cash flows resulting from the hedged instrument), attributed to an anticipated transaction which is probable and may impact profit and loss, are charged to capital reserve from cash flow hedging, in Other Comprehensive Income, under Shareholders' Equity.

Note 1 - Reporting Principles and Accounting Policies - continued

G. The Bank stops hedge accounting henceforth, when:

1) It is determined that a hedge is no longer effective for offsetting the changes in the fair value or cash flow of the hedged item, as the case may be.
2) The derivative expires, is sold, canceled or realized.
3) Management revokes the designation of the derivative as a hedging instrument.

When a fair value hedge is discontinued because it is determined that the hedge no longer qualifies as an effective fair value hedge, the derivative will continue to be recorded in the balance sheet at its fair value, but changes to fair value of the hedged asset or liability will no longer be regularly charged to profit and loss. When a cash flow hedge is discontinued because it is determined that the hedge no longer qualifies as an effective cash flow hedge, changes in the fair value of the derivative since the date of discontinuation of hedging are recorded in the statement of profit and loss. Profit or loss accumulated under Other Comprehensive Income and previously presented under Equity, remains under Equity until the anticipated transaction takes place or until it is beyond any reasonable doubt that the anticipated transaction would not take place. If it is beyond any reasonable doubt that the anticipated transaction would not take place, the accumulated profit or loss with respect to the hedging instrument, recognized under Other Comprehensive Income, would be reclassified to profit and loss.

16) Fair value

A. As from January 1, 2011, the Bank applies FAS 157 (ASC 820-10) defines fair value, and sets forth a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. Moreover, as from January 1, 2012, the Bank applies the Supervisor of Banks' directive on fair value measurement, which includes in the Public Reporting Regulations the rules stipulated by Accounting Standard Update ASU 2011-04 with regard to fair value measurement (ASC 820): Amendments to achieve uniform fair value measurement and disclosure requirements in US GAAP and in IFRS.

The ranking divides instruments measured at fair value into three levels:

Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as set forth under Level 1. Level 2 data include use of quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 - fair value measured by using non-observed data.

Note 1 - Reporting Principles and Accounting Policies - continued

FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard allows recognition of "first day" gains, and eliminates the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price.

For the purpose of fair value measurement, the basic "in use" assumption is not applied to financial instruments. However, under certain conditions, financial assets and financial liabilities held and managed within a portfolio, are measured at fair value using the price which would have been received or paid upon sale or transfer of the net position in such groups of financial assets or financial liabilities.

Moreover, fair value of financial instruments is measured without accounting for the blockage factor (holding size), both for financial instruments measured based on Level 1 data and for financial instruments measured based on Level 2 or 3, except for cases where a premium or discount would have been accounted for in fair value measurement by market players, in the absence of Level 1 data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivatives, issued there by and measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk in derivatives as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions on an active market of the credit quality of the counter party, if such indications are available at reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on consolidated basis, is not material, the Bank calculates the aforementioned adjustment on group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to provisions set forth in the standard, the Bank is required to review the valuation methods applied there by for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

Note 1 - Reporting Principles and Accounting Policies - continued

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

How fair value is determined:

1) Securities

   The fair value of securities held for trade and securities available for sale is determined based on quoted market prices on a major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units and the aforementioned quoted market price. If a quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.)

2) Financial derivatives

   Financial derivatives with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market - using a quoted market price on the most effective market. Derivative financial derivatives not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

3) Financial instruments other than derivatives

   Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

   To this end, the future cash flows for impaired and other debt have been calculated net of effects of accounting write-offs and provision for credit losses with respect of said debt.

   For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

Note 1 - Reporting Principles and Accounting Policies - continued

B. Fair value option

FAS 159 (ASC 825-10) allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.

Further, FAS 159 (ASC 825-10) stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

17) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are charged to the statement of profit and loss, or charged directly to equity if they arise from items directly recognized under equity.

A. Current taxes

Current tax is the tax amount expected to be payable (or receivable) on taxable income for the year, calculated using tax rates which apply pursuant to statutes enacted, or essentially enacted, as of the reporting date, including changes to tax payments with regard to previous years.

The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Act. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

B. Deferred taxes

Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred tax are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

Deferred tax assets are reviewed upon each report date and are written-down if the related tax benefits are not expected to be realized.

C. Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and liabilities when there is an enforceable legal right of set-off between them, and they are attributed to the same taxable income, taxed by the same tax authority with respect to the same taxable entity, or to consolidated companies, which intend to discharge current tax assets and liabilities on net basis, or with tax assets and liabilities settled concurrently.

D. Additional tax with respect to dividend distributions

The Bank may incur additional tax with respect to earnings of certain investees, should these earnings be distributed as dividends by those investees. No provision for tax is recorded for subsidiaries, if the Bank has control as of the distribution date and dividend distributions are not expected in the foreseeable future.

E. Uncertain tax positions

The Bank applies the rules for recognition and measurement stipulated in FASB Interpretation NO. 48 "Accounting for Uncertainty In Income Taxes". In this context, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

18) Earnings per share

The Bank states earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.

Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options awarded to employees.

Note 1 - Reporting Principles and Accounting Policies - continued

19) The Bank's operating segments

A supervisory operating segment is a Bank component engaged in certain activities or grouping clients in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Regulations by the Supervisor of Banks.

A supervisory operating segment is mostly specified in terms of client classification. Individual clients are classified, based on financial assets, under the household segment or the private banking segment. Clients other than individuals are primarily classified based on their turnover for business segments (separated into small and micro business, medium business and large business), institutional investors and the financial management segment. Furthermore, the Bank is required to apply reporting requirements for operating segments based on management approach, when such operating segments materially differ from the supervisory operating segments. Additional disclosure based on management approach is in conformity with US GAAP for banks ASC 280 (see Note 29 to th financial statements).

An operating segment defined according to management approach is a component of the Bank engaged in operations from which it may derive revenues and incur expenses, its operating results are regularly reviewed by management and by the Board of Directors for the purpose of making decisions about resource allocation and for assessing its performance, and separate financial information is available with regard to it.

The new reporting format is initially applied as from the 2015 financial statements, subject to concessions and transitional provisions specified by the Supervisor of Banks. At this stage, the Bank reviews the nature of the differences between the Supervisory Segments approach and the management approach. The Bank is also reviewing certain optional adjustments to management approach in this context. For more information see section C.9 above.

20) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the accounting treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning accounting treatment of transactions between an entity and its controlling shareholder.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

Note 1 - Reporting Principles and Accounting Policies - continued

21) Statement of cash flows

The statement of cash flows is presented classified under cash flows from current operations, from investment operations and from financing operations. Cash flows from major Bank operations are classified under current operations. Cash and cash equivalents includes cash, deposits with banks, negotiable deposit notes and deposits with central banks with an original term of up to three months.

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

1) Recognition of revenues from contracts with clients

On January 11, 2015, the Supervisor of Banks issued a circular concerning adoption of an update to accounting rules with regard to revenues from contracts with clients. The circular updates the Public Reporting Regulations in view of the publication of ASU 2014-09, adopting a new standard on revenue recognition in US accounting rules. The standard stipulates that revenue is to be recognized at the amount expected to be received in consideration of transfer of goods or provision of services to clients.

The new standard does not apply, *inter alia*, to financial instruments and to contractual rights or obligations within the scope of chapter 310 of the codification.

According to transition provisions for 2015, the amendments to Public Reporting Regulations should be applied in conformity with the circular on adoption of updated accounting rules concerning "Revenues from contracts with clients", as from January 1, 2018. Upon initial application, it is allowed to choose retroactive application, while restating comparative figures, or to choose prospective application, while charging the cumulative effect to equity upon initial application.

The Bank is reviewing the effect of this standard on its financial statements.

2) Application of US GAAP with regard to business combinations, consolidation of financial statements and investment in investees

On June 10, 2015, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card companies in Israel in conformity with US GAAP with regard to business combinations, consolidation of financial statements and investment in investees. According to the circular,

US GAAP should be applied to these matters as follows:

- Presentation, measurement and disclosure rules stated in provisions of ASC 805 "Business combinations".
- Provisions of ASC 810 "Consolidation".
- Provisions of ASC 350-20 "Intangibles - Goodwill and Other Assets" with regard to accounting treatment of impairment of goodwill acquired in a business combination.
- US GAAP with regard to investees, including presentation, measurement and disclosure rules as well as provisions with regard to impairment specified in ASC 323 "Investments - Equity Method and Joint Ventures".

Note 1 - Reporting Principles and Accounting Policies - continued

The new provisions cover a variety of topics, including changes to old provisions on these topics: Recognition of non-controlling interests, subsequent measurement of contingent liabilities, revaluation of assets and liabilities by subsidiaries in a business combination ("Push Down Accounting"), investments held for sale, impairment of investment in associate, transition from cost method to equity method and other topics.

The provisions of the circular would apply as from January 1, 2016. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these issues, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these issues.

Provisions with regard to Push Down Accounting would apply to business combinations made as from January 1, 2016.

Application of the directives is not expected to have any material impact on the Bank's financial statements.

3) Reporting by Israeli banking corporations in conformity with US GAAP with regard to intangible assets

On October 22, 2015, the Supervisor of Banks issued a circular containing amendments to Public Reporting Directives concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to intangible assets.

According to this circular, banking corporations are required to adopt US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets - Goodwill and other".

In this regard, accounting treatment of goodwill, including review of its impairment, was revised in conformity with the circular dated June 10, 2015 concerning "Reporting by banking corporations and credit card companies in Israel in conformity with US GAAP with regard to business combinations and consolidation of financial statements". ASC 350 also discusses treatment of intangible assets from in-house development, including capitalization of software costs (including treatment of and review for impairment) and revaluation of intangible assets.

The provisions listed in the circular would apply as from January 1, 2016. Upon initial application, banking corporations are required to act in conformity with transitional provisions stated for these matters, *mutatis mutandis*, including retroactive amendment of comparative figures, as required. Application of these amendments to regulations is not expected to have any material impact on the Bank's financial statements.

4) Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes

On October 22, 2015, the Supervisor of Banks issued a circular containing amendments to Public Reporting Directives concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to income taxes.

Note 1 - Reporting Principles and Accounting Policies - continued

According to this circular, banking corporations are required to adopt US GAAP with regard to taxes on income, including the presentation, measurement and disclosure rules specified in provisions of ASC 740 "Income Taxes".

According to the circular, a banking corporation is not required to provide disclosure on financial statements in 2017 with regard to disallowed tax benefits, which are required by section 740-10-50-15-2 and section 740-10-50-15A of the codification.

The provisions listed in the circular would apply as from January 1, 2017.

Adoption of US GAAP may affect recognition of deferred taxes with respect to retained earnings of investees.

The Bank is preparing to apply these amendments. The Bank is currently unable to estimate the impact of adopting these amendments on its financial statements.

5) FASB codification update 2014-11 concerning repurchase-to-maturity transactions and repurchase financings.

On July 15, 2015, the Supervisor of Banks issued a draft concerning "FASB codification update 2014-11 concerning repurchase-to-maturity transactions and repurchase financings". According to this draft, in June 2014, FASB issued codification update 2014-11 concerning repurchase-to-maturity transactions and repurchase financings. This update clarifies, *inter alia*, that repurchase-to-maturity transactions should be treated, for accounting purposes, as secured debt - consistently with the accounting treatment of other repurchase transactions. The update also clarifies the accounting treatment of repurchase financings, where one party transfers a financial asset to the other party and concurrently, contracts with the other party an agreement for sale and re-purchase of the financial asset, also including certain disclosure requirements. Banks are required to apply these updates as from January 1, 2016 in conformity with transitional provisions specified in the USA, *mutatis mutandis*.

Application of the draft is not expected to have any material impact on the Bank's financial statements.

Note 2 - Interest revenues and expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
A. Interest revenues[1]						
From loans to the public	4,691	5,129	6,066	4,359	4,770	5,723
From loans to Governments	9	9	9	9	9	9
From deposits with the Bank of Israel and from cash	29	108	172	25	91	139
From deposits with banks	6	13	42	2	6	33
From securities loaned or acquired in resale agreements	-	1	1	-	1	1
From debentures	171	87	152	160	85	144
Total interest revenues	4,906	5,347	6,442	4,555	4,962	6,049
B. Interest expenses						
On deposits from the public	962	1,393	2,150	1,219	1,674	2,511
On deposits from governments	2	3	4	2	3	4
On deposits from banks	12	18	35	126	145	246
On debentures and subordinated notes	392	556	786	136	198	282
On other liabilities	4	2	3	4	2	3
Total interest expenses	1,372	1,972	2,978	1,487	2,022	3,046
Total interest revenues, net	3,534	3,375	3,464	3,068	2,940	3,003
C. Details of net effect of hedging financial derivatives on interest revenues	44	(46)	25	44	(46)	25
D. Details of interest revenues on accrual basis from debentures						
Held to maturity	75	33	23	65	10	-
Available for sale	92	45	112	91	66	127
Held for trading	4	9	17	4	9	17
Total included under interest revenues	171	87	152	160	85	144

(1) Includes the effective element in the hedging ratios.

Note 3 - Non-interest financing revenues
For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
A. Non-interest financing revenues (expenses) with respect to non-trade operations						
1. From activity in derivative instruments						
Non-effective element of hedging ratios[1]	5	3	-	5	3	-
Net revenues (expenses) with respect to ALM derivatives[2]	37	1,373	(548)	37	1,373	(548)
Total from activity in derivative instruments	42	1,376	(548)	42	1,376	(548)
2. From investment in debentures						
Gain from sale of debentures held to maturity[3]	67	-	-	-	-	-
Gains on sale of debentures available for sale	118	110	52	117	110	38
Loss on sale of debentures available for sale	-	-	(1)	-	-	(1)
Total from investment in debentures	185	110	51	117	110	37
3. exchange rate differences, net	136	(1,566)	525	136	(1,582)	551
4. Gains (losses) from investment in shares						
Gains on sale of available-for-sale shares	-	5	1	-	5	1
Provision for impairment of available-for-sale shares	-	(2)	(3)	-	(2)	(3)
Dividends from available-for-sale shares	7	8	1	7	8	1
Total from investment in shares	7	11	(1)	7	11	(1)
5. Net gain (loss) with respect to loans sold	1	-	-	1	-	-
Total non-interest financing revenues (expenses) with respect to non-trade operations	371	(69)	27	303	(85)	39

(1) Excludes the effective element in the hedging ratios.
(2) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Gain from sale of debentures held to maturity at Bank Yahav. See also Note 25 to the financial statements.

Note 3 - Non-interest financing revenues - Continued
For the year ended December 31,
Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
B. Non-interest financing revenues (expenses)with respect to trading operations[1]						
Net revenues (expenses) with respect to other derivative instruments	(8)	238	(51)	(8)	238	(51)
Realized gain (loss) from adjustment to fair value of debentures held for trade, net	(9)	37	20	(9)	37	20
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	4	(33)	18	4	(33)	18
Total from trading operations[2]	(13)	242	(13)	(13)	242	(13)
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure						
Interest exposure	(2)	25	45	(2)	25	45
Foreign currency exposure	(42)	206	(80)	(42)	206	(80)
Exposure to shares	24	12	13	24	12	13
Exposure to commodities and others	7	(1)	9	7	(1)	9
Total	(13)	242	(13)	(13)	242	(13)

(1) Includes exchange rate differentials resulting from trading operations.
(2) For interest revenues from investment in debentures held for trading, see Note 2.D. to the financial statements.

Note 4 - Commissions

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Account management(1)	303	298	298	280	274	275
Credit cards	158	156	150	108	106	105
Activities involving securities	244	238	223	199	194	178
Commissions on distribution of financial products(2)	55	54	47	37	38	36
Provident fund operations	20	19	40	20	19	20
Credit processing(3)	38	56	148	38	56	143
Translation differences	169	137	132	157	125	121
Foreign trade activity	41	43	34	41	43	34
Net revenues from credit portfolio service	55	62	72	54	61	69
Life insurance distribution commissions	93	95	91	19	22	27
Home insurance distribution commissions	15	21	24	-	-	-
Commissions from financing transactions(3)	193	181	168	193	180	167
Other commissions	42	35	31	29	26	27
Total commissions	1,426	1,395	1,458	1,175	1,144	1,202

(1) In Israeli and foreign currency

(2) Includes distribution commissions from mutual funds and retirement products.

(3) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues as from January 1, 2014, see Note 1.D.4 to the financial statements.

Note 5 - Other revenues

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Gain from sale of buildings and equipment	36	10	-	36	10	-
Trustee fees	17	15	11	-	-	-
Revenues from security services	6	7	7	6	7	7
Rent revenues	8	5	2	9	6	2
Other	7	7	7	11	10	10
Total other revenues	74	44	27	62	33	19

Note 6 - Salaries and Related Expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014(2)	2013(2)	2015	2014(2)	2013(2)
Salaries (including bonuses)	1,276	1,215	1,164	1,104	1,047	978
Expense arising from share-based payment transactions(1)	16	37	8	16	37	6
Other associated expenses, including study fund, paid leave and sick pay	53	50	51	45	43	44
Long-term benefits	13	10	13	12	9	12
National Insurance and VAT on salaries	396	382	366	353	341	326
Expenses with respect to retirement (including severance pay and provident funds)						
Defined benefit	57	45	67	49	35	60
Defined contribution	112	105	105	100	96	94
Other post-employment benefits and post-retirement benefits, other than pension payment	5	6	5	2	2	1
Expenses with respect to other employee benefits	16	16	44	16	16	44
Total salaries and related expenses	1,944	1,866	1,824	1,697	1,626	1,565
Of which: salaries and related expenses overseas	54	51	49	41	39	37

(1) See Note 23.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Note 7 - Other Expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Marketing and advertising	57	58	68	46	49	52
Communications	45	40	42	33	30	32
Computer	79	71	60	8	8	9
Office expenses	39	36	40	30	30	33
Insurance	10	10	11	10	10	11
Professional services	195	91	71	182	78	61
Board members' fees	10	9	10	8	7	7
Training and continuing education	10	9	7	7	6	4
Commissions	34	32	28	34	32	28
Cars and travel	40	40	38	39	40	37
Other	71	62	63	58	48	52
Total other expenses	590	458	438	455	338	326

Note 8 - Provision for Taxes on Profit
For the year ended December 31,
Reported amounts (NIS in millions)

A. Composition

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Current taxes -						
For the current year	725	649(2)	651(2)	619	575(2)	567(2)
For prior years	9	8(2)	16(2)	9	8(2)	25(2)
Total current taxes	734	657	667	628	583	592
Changes in deferred taxes -						
For the current year	28	1(1)(2)	(80) (1)(2)	29	4(1)(2)	(75) (1)(2)
For prior years	(1)	(1)	6	(1)	(1)	(1)
Total deferred taxes	27	-	(74)	28	3	(76)
Total provision for taxes on income	761	657	593	656	586	516
Includes provision for taxes overseas	25	24	20	24	23	19

B. Movement in deferred taxes:

	Consolidated			The Bank		
	2015	2014(1)(2)	2013(1)(2)	2015	2014(1)(2)	2013(1)(2)
Temporary differences created and reversed	15	-	(35)	17	3	(39)
Change in tax rate	12	-	(39)	11	-	(37)
Total movement in deferred taxes	27	-	(74)	28	3	(76)

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(2) Reclassified.

Note 8 - Provision for Taxes on Profit - continued
For the year ended December 31,
Reported amounts (NIS in millions)

C. Reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Statutory tax rate applicable to a bank in Israel	37.58%	37.71%	36.21%	37.58%	37.71%	36.21%
Tax amount based on statutory tax rate	734	669[1]	624[1]	617	578[1]	536[1]
Tax (tax saving) from:						
Income of subsidiaries in Israel[2]	(24)	(16)[1]	(21)	(12)	(5)[1]	(8)
Income of subsidiaries overseas	(1)	(7)	7	-	-	-
Exempt income	-	(2)	-	-	(2)	-
Adjustment differences on depreciation, amortization and capital gains	(1)	-	(1)	(1)	-	(1)
Other non-deductible expenses	34	8	7	34	9	6
Temporary differences and losses for which deferred taxes have not been recorded	(2)	-[1]	(4)	(2)	-[1]	(4)
Taxes with respect to previous years:						
Additional amount payable for troubled debt	2	4	4	2	4	4
Others	7	1	18	7	2	20
Change in deferred tax balances due to change in tax rates	12	-	(39)[1]	11	-	(37)[1]
Adjustment differences on monetary assets and other differences, net	-	-	(2)	-	-	-
Total provision for taxes on income	761	657	593	656	586	516

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(2) At the Bank - revenues of auxiliary corporations.

Note 8 - Provision for Taxes on Profit - continued
For the year ended December 31,
Reported amounts (NIS in millions)

D. On September 3, 2015, the Knesset Finance Committee decided to decrease the VAT rate on transactions and imports of goods from 18% to 17%, as from October 1, 2015.

On November 12, 2015, the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), 2015 was published, updating the profit tax and payroll tax rates applicable to financial institutions, to 17% as from October 1, 2015.

The effect of this change in the VAT rate (effective as from October 1, 2015) is reflected in the financial statements and amounted to an expense of NIS 12 million. The effect is primarily due to a decrease in deferred taxes.

The effect of the decrease in the payroll tax rate impact the balance of liabilities with respect to employee rights and, concurrently, also deferred taxes and other comprehensive income, such that the total balance of other comprehensive income increased by NIS 4 million.

On January 4, 2016 (after the balance sheet date), the Knesset Plenum approved, by second and third vote, the lowering of the corporate tax rate from 26.5% to 25%, effective as from January 1, 2016.

The effect of this decrease in the corporate tax rate would be reflected in the financial statements for the first quarter of 2016, amounting to an expense of NIS 30 million. The effect is due to a decrease in deferred taxes.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Statutory tax rate
2014	37.71%
2015	37.58%
2016 and later	35.89%

E. The Bank has finalized tax assessments, or tax assessments deemed to be final, through the 2010 tax year.

The Bank received payroll tax assessments with regard to payroll of local employees at overseas branches of the Bank for 2009-2011. These tax assessments amount to NIS 15 million, including interest and linkage. For the years 2009-2010, the Bank was issued tax assessments by decree. The Bank disputes these tax assessments and therefore has filed an appeal with regard to 2009-2010 and reservations with regard to 2011. The Bank's position may not prevail and therefore it is possible that the Tax Assessor would issue similar tax assessments for subsequent years.

Bank Yahav has finalized tax assessments through the 2010 tax year, as confirmed by the Tax Assessor. Note that the Tax Assessor sent another notice, concerning extension of the statute of limitations, due to filing of an amendment report for 2010 - but Bank Yahav rejected this notice. According to Bank Yahav's legal counsel, Bank Yahav has very good claims to support its reliance on the Tax Assessor's notice with regard to closing these tax assessments.

Note 8 - Provision for Taxes on Profit - continued
For the year ended December 31,
Reported amounts (NIS in millions)

F. Deferred tax assets and provision for deferred taxes

	Consolidated				The Bank			
	December 31,				December 31,			
	Balances		Average tax rate in %		Balances		Average tax rate in %	
	2015	2014	2015	2014	2015	2014	2015	2014
Deferred taxes for:								
Provision for credit losses[1]	477	457	37.2	37.7	451	432	37.2	37.7
Provision for vacation pay, long-service bonuses and employee rights[1]	116	[5]109	37.2	37.7	97	[5]91	37.2	37.7
Excess provision for employee rights on retirement, net[1]	287	[5]293	37.2	37.7	274	[5]279	37.2	37.7
Securities[3][1]	-	-	37.2	37.7	-	-	37.2	37.7
Adjustment of depreciable non-monetary assets[2]	(1)	[5] 3	26.5	26.5	(2)	[5] 2	26.5	26.5
Other - from monetary items[1][2][4]	30	[6]50	37.2	37.7	30	[6]50	37.2	37.7
Other - from non-monetary items, net[1]	(6)	(2)	37.2	37.7	(6)	(3)	37.2	37.7
Total deferred taxes	903	910	37.2	37.7	844	851	37.2	37.7
Deferred taxes include:								
(1) Deferred tax assets included in "other assets"	929	[5]929	37.2	37.7	870	[5]870	37.2	37.7
(2) Deferred taxes payable included in "other liabilities"	(26)	[5](19)	26.5	26.5	(26)	[5] (19)	26.5	26.5
Deferred taxes, net	903	910	37.2	37.7	844	851	37.2	37.7

(3) Changes in this item with respect to a loss amounting to NIS 10 million due to adjustment of fair value of securities available for sale (previous year - loss amounting to NIS 3 million) were charged to a separate item in shareholders' equity.

(4) Changes in this item amounting to NIS 2 million due to net loss from cash flow hedges (previous year - gain amounting to NIS 8 million) were charged to a separate item in shareholders' equity.

(5) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(6) Reclassified.

Note 9 - Earnings per Ordinary Share

	Consolidated		
	For the year ended December 31,		
	Reported amounts (NIS in millions)		
	2015	2014	2013
Net profit used to calculate earnings per share:			
Basic earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	1,134	1,092	1,083
Diluted earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	1,134	1,092	1,083
Earnings per share:			
Basic earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	4.90	4.74	4.74
Diluted earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	4.89	4.71	4.71
Weighted average number of shares(1)(2)			
Weighted average number of ordinary shares used to calculate basic earnings	231,342,045	230,281,306	228,260,414
Weighted average number of ordinary shares used to calculate diluted earnings	232,118,646	231,613,393	229,842,592

(1) Excludes 2,500,000 shares bought back by the Bank. For more information see Note 24.D. to the financial statements.

(2) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. See Note 23 to the financial statements for details.

Note 10 - Cumulative other comprehensive income (loss)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interest						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments[2]	Net gain from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non-controlling interest	Other comprehensive income attributable to shareholders of the Bank
Balance as of January 1, 2013	-	-	3	-	3	3	-
Effect of initial adoption of US GAAP with regard to employee rights	-	-	-	(61)	(61)	(5)	(56)
Balance as of January 1, 2013 after initial application of new rules	-	-	3	(61)	(58)	(2)	(56)
Net change in the period	12	(3)	-	(12)	(3)	(2)	(1)
Balance as of December 31, 2013[1]	12	(3)	3	(73)	(61)	(4)	(57)
Net change in the period	(7)	4	15	(29)	(17)	(2)	(15)
Balance as of December 31, 2014[1]	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	(17)	(1)	(4)	(2)	(24)	1	(25)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

(2) Foreign currency translation adjustment of associates whose functional currency differs from that of the Bank.

Note 10 - Cumulative other comprehensive income (loss) - continued

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31,								
	2015			2014[1]			2013[1]		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interest:									
Adjustments for presentation of securities available for sale at fair value									
Net unrealized gains (losses) from adjustments to fair value	158	(60)	98	100	(38)	62	73	(29)	44
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[2]	(185)	70	(115)	(110)	41	(69)	(51)	19	(32)
Net change in the period	(27)	10	(17)	(10)	3	(7)	22	(10)	12
Translation adjustments									
Adjustments from translation of financial statements[3]	(1)	-	(1)	6	(2)	4	(3)	-	(3)
Net change in the period	(1)	-	(1)	6	(2)	4	(3)	-	(3)
Cash flows hedges									
Net gain (loss) with respect to cash flows hedging	(1)	1	-	30	(10)	20	5	(2)	3
Net (gain) loss with respect to cash flow hedges reclassified to the statement of profit and loss[4]	(5)	1	(4)	(7)	2	(5)	(5)	2	(3)
Net change in the period	(6)	2	(4)	23	(8)	15	-	-	-
Employee benefits									
Net actuarial gain (loss) for the period	(7)	3	(4)	(47)	17	(30)	(19)	7	(12)
Net loss reclassified to the statement of profit and loss	4	(2)	2	1	-	1	-	-	-
Net change in the period	(3)	1	(2)	(46)	17	(29)	(19)	7	(12)
Total net change in the period	(37)	13	(24)	(27)	10	(17)	-	(3)	(3)
Total net change in the period attributable to non-controlling interest	(1)	-	(1)	3	(1)	2	3	(1)	2
Total net change in the period attributable to shareholders of the Bank	(38)	13	(25)	(24)	9	(15)	3	(4)	(1)

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.
(2) Pre-tax amount included on the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2. to the financial statements.
(3) Foreign currency translation adjustment of associates whose functional currency differs from that of the Bank.
(4) Pre-tax amount included on the statement of profit and loss under "Interest revenues". For more information see Note 2.C. to the financial statements.

Note 11 - Cash and Deposits with Banks
As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2015	2014	2015	2014
Cash and deposits with central banks	28,597	23,651	22,776	20,167
Deposits with commercial banks	1,892	3,147	1,489	2,258
Total cash and deposits with banks	30,489	26,798	24,265	22,425
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	30,309	26,189	24,141	22,241

Note 12 - Securities

As of December 31, 2015

Reported amounts (NIS in millions)

A. Consolidated:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,320	3,320	71	-	3,391
Total debentures held to maturity	3,320	3,320	71	-	3,391

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gain	Losses	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	6,246	6,254	20	(28)	6,246
Of foreign governments[2][5]	1,664	1,673	-	(9)	1,664
Of banks and financial institutions overseas	274	275	-	(1)	274
Of others overseas	21	21	-	-	21
Total debentures available for sale	8,205	8,223	20	(38)	8,205
Shares[3]	98	100	-	(2)	98
Total securities available for sale	8,303	8,323	20[4]	(40)[4]	8,303

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	222	222	-	-	222
Total securities held for trade	222	222	-	-	222
Total securities	11,845	11,865	91	(40)	11,916

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 588 million.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 96 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Primarily US government debentures.

Remarks:
(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements; for more information about investment in shares - see Note 3.A.4 to the financial statements.
(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risk Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

As of December 31, 2014

Reported amounts (NIS in millions)

A. Consolidated - continued

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Debentures held to maturity					
of Government of Israel	5,261	5,261	78	-	5,339
Total debentures held to maturity	5,261	5,261	78	-	5,339

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gain	Losses	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	7,336	7,328	30	(22)	7,336
Of foreign governments[2][6]	115	115	-	-	115
Of banks and financial institutions in Israel	123	122	1	-	123
Of banks and financial institutions overseas	219	219	-	-	219
Of others in Israel	1	1	-	-	1
Of others overseas	66	66	-	-	66
Total debentures available for sale	7,860	7,851	31	(22)	7,860
Shares[3]	104	105	-	(1)	104
Total securities available for sale	7,964	7,956	31[4]	(23)[4]	7,964

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel[7]	1,034	1,042	-	(8)	1,034
Total securities held for trade	1,034	1,042	-	(8)[5]	1,034
Total securities	14,259	14,259	109	(31)	14,337

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 1,370 million.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 102 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to the statement of profit and loss.
(6) US government debentures.
(7) Of which, securities amounting to NIS 647 million classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Directives, even though they had not been acquired for trade.

Remarks:
(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements; for more information about investment in shares - see Note 3.A.4 to the financial statements.
(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risk Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 12 - Securities – Continued

As of December 31, 2014

Reported amounts (NIS in millions)

A. Consolidated - continued

(4) Fair value and unrealized losses, by time period and impairment rate, of securities available for sale, which include unrealized loss:

	As of December 31, 2015							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	1,048	14	-	14	114	12	2	14
Of foreign governments	1,435	9	-	9	-	-	-	-
Of banks and financial institutions overseas	78	1	-	1	-	-	-	-
Shares	-	-	-	-	2	2	-	2
Total securities available for sale	2,561	24	-	24	116	14	2	16

	As of December 31, 2014							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	2,980	16	-	16	466	6	-	6
Shares	1	1	-	1	-	-	-	-
Total securities available for sale	2,981	17	-	17	466	6	-	6

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) The Bank has no securities in a position with un-recognized loss.

(5) Asset-backed and mortgage-backed securities

As December 31, 2015 and December 31, 2014, there was no balance of asset-backed or mortgage-backed securities.

Note 12 - Securities – Continued

As of December 31, 2014

Reported amounts (NIS in millions)

B. The Bank

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
(1) Debentures held to maturity					
of Government of Israel	3,320	3,320	71	-	3,391
Total debentures held to maturity	3,320	3,320	71	-	3,391

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value(1)
			Gain	Losses	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel(2)	6,215	6,223	16	(24)	6,215
Of foreign governments(2)(5)	1,664	1,673	-	(9)	1,664
Of banks and financial institutions overseas	274	275	-	(1)	274
Of others overseas	11	11	-	-	11
Total debentures available for sale	8,164	8,182	16	(34)	8,164
Shares(3)	98	100	-	(2)	98
Total securities available for sale	8,262	8,282	16(4)	(36)(4)	8,262

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value(1)
(3) Securities held for trade					
Debentures -					
of Government of Israel	222	222	-	-	222
Total securities held for trade	222	222	-	-	222
Total securities	11,804	11,824	87	(36)	11,875

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 588 million.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 96 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) US government debentures.

Remarks:
(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements; for more information about investment in shares - see Note 3.A.4 to the financial statements.
(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risk Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 12 - Securities – Continued

As of December 31, 2014

Reported amounts (NIS in millions)

B. The Bank - continued

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,410	3,410	18	-	3,428
Total debentures held to maturity	3,410	3,410	18	-	3,428

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gain	Losses	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	7,116	7,105	30	(19)	7,116
Of foreign governments [2][6]	115	115	-	-	115
Of foreign financial institutions	218	218	-	-	218
Of others overseas	56	56	-	-	56
Total debentures available for sale	7,505	7,494	30	(19)	7,505
Shares[3]	104	105	-	(1)	104
Total securities available for sale	7,609	7,599	30	(20)	7,609

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel[7]	1,034	1,042	-	(8)	1,034
Total securities held for trade	1,034	1,042	-	(8)	1,034
Total securities	12,053	12,051	48	(28)	12,071

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 1,370 million.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 102 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to the statement of profit and loss.
(6) US government debentures.
(7) Of which, securities amounting to NIS 647 million classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Directives, even though they had not been acquired for trade.

Remarks:

(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements; for more information about investment in shares - see Note 3.A.4 to the financial statements.
(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risk Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 13 - Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses

Consolidated

						December 31, 2015
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	29,656	24	758	30,438	3,412	33,850
reviewed on individual basis	8,503	105,922	15,741	130,166	-	130,166
Of which: By extent of arrears	1,046	105,419	-	106,465	-	106,465
Total debts	38,159	105,946[2]	16,499	160,604	3,412	164,016
Of which:						
Impaired debts under restructuring	175	-	54	229	-	229
Other impaired debts	537	24	27	588	-	588
Total impaired debts	712	24	81	817	-	817
Debts in arrears 90 days or longer	38	957	17	1,012	-	1,012
Other problematic debts	296	-	92	388	-	388
Total problematic debts	1,046	981	190	2,217	-	2,217
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	516	1	22	539	3	542
reviewed on individual basis	84	613	164	861	-	861
Of which: Provision by extent of arrears[3]	4	613	-	617	-	617
Total provision for credit losses	600	614	186	1,400	3	1,403
Of which: With respect to impaired debts	118	1	10	129	-	129

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) General-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,421 million.

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 368 million.

Note 13 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

Consolidated

						December 31, 2014[4]
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,514	3	641	30,158	4,691	34,849
reviewed on individual basis	8,129	96,239	14,386	118,754	-	118,754
Of which: By extent of arrears	1,195	95,513	-	96,708	-	96,708
Total debts	37,643	96,242[2]	15,027	148,912	4,691	153,603
Of which:						
Impaired debts under restructuring	367	-	58	425	-	425
Other impaired debts	338	3	15	356	-	356
Total impaired debts	705	3	73	781	-	781
Debts in arrears 90 days or longer	35	945	21	1,001	-	1,001
Other problematic debts	187	-	84	271	-	271
Total problematic debts	927	948	178	2,053	-	2,053
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	464	-	22	486	5	491
reviewed on individual basis	76	624	157	857	-	857
Of which: Provision by extent of arrears[3]	6	624	-	630	-	630
Total provision for credit losses	540	624	179	1,343	5	1,348
Of which: With respect to impaired debts	125	-	8	133	-	133

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) General-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,313 million.
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 339 million.
(4) Reclassified.

Note 13 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

The Bank

	December 31, 2015					
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,656	24	502	30,182	2,873	33,055
reviewed on individual basis	8,503	105,880	7,761	122,144	-	122,144
Of which: By extent of arrears	1,046	105,377	-	106,423	-	106,423
Total debts	38,159	105,904[2]	8,263	152,326	2,873	155,199
Of which:						
Impaired debts under restructuring	175	-	17	192	-	192
Other impaired debts	537	24	27	588	-	588
Total impaired debts	712	24	44	780	-	780
Debts in arrears 90 days or longer	38	957	14	1,009	-	1,009
Other problematic debts	296	-	50	346	-	346
Total problematic debts	1,046	981	108	2,135	-	2,135
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	516	1	19	536	3	539
reviewed on individual basis	84	613	115	812	-	812
Of which: Provision by extent of arrears[3]	4	613	-	617	-	617
Total provision for credit losses	600	614	134	1,348	3	1,351
Of which: With respect to impaired debts	118	1	10	129	-	129

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) General-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,421 million.

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 368 million.

Note 13 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

The Bank

	December 31, 2014[4]					
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,514	3	356	29,873	3,672	33,545
reviewed on individual basis	8,129	96,210	7,053	111,392	-	111,363
Of which: By extent of arrears	1,195	95,529	-	96,724	-	96,724
Total debts	37,643	96,213[2]	7,409	141,265	3,672	144,908
Of which:						
Impaired debts under restructuring	367	-	19	386	-	386
Other impaired debts	338	3	15	356	-	356
Total impaired debts	705	3	34	742	-	742
Debts in arrears 90 days or longer	35	945	17	997	-	997
Other problematic debts	187	-	41	228	-	228
Total problematic debts	927	948	92	1,967	-	1,967
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	464	-	20	484	5	489
reviewed on individual basis	76	624	109	809	-	809
Of which: Provision by extent of arrears[3]	6	624	-	630	-	630
Total provision for credit losses	540	624	129	1,293	5	1,298
Of which: With respect to impaired debts	125	-	8	133	-	133

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) General-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,313 million.

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 339 million.

(4) Reclassified.

Note 13 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

Consolidated

						December 31, 2015
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	632	624	189	1,445	5	1,450
Expenses with respect to credit losses	149	9	55	213	(2)	211
Accounting write-offs	(211)	(20)	(114)	(345)	-	(345)
Recovery of debts written off for accounting purposes in previous years	127	1	65	193	-	193
Net accounting write-offs	(84)	(19)	(49)	(152)	-	(152)
Balance of provision for credit losses at end of period	697	614	195	1,506	3	1,509
Of which: With respect to off balance sheet credit instruments	97	-	9	106	-	106

						December 31, 2014
Balance of provision for credit losses at start of period	(2)630	(2)640	148	1,418	10	1,428
Expenses with respect to credit losses	83	6	93	182	(9)	173
Accounting write-offs	(220)	(22)	(123)	(365)	-	(365)
Recovery of debts written off for accounting purposes in previous years	139	-	71	210	4	214
Net accounting write-offs	(81)	(22)	(52)	(155)	4	(151)
Balance of provision for credit losses at end of period	632	624	189	1,445	5	1,450
Of which: With respect to off balance sheet credit instruments	92	-	10	102	-	102

						December 31, 2013
Balance of provision for credit losses at start of period	726(2)	(2)815	154	1,695	10	1,705
Expenses with respect to credit losses	41	190	57	288	-	288
Accounting write-offs	(248)	(1)(365)	(142)	(755)	-	(755)
Recovery of debts written off for accounting purposes in previous years	111	-	79	190	-	190
Net accounting write-offs	(137)	(365)	(63)	(565)	-	(565)
Balance of provision for credit losses at end of period	630	640	148	1,418	10	1,428
Of which: With respect to off balance sheet credit instruments	92	-	11	103	-	103

(1) Write-off of housing loans fully provided for, amounting to NIS 281 million.
(2) Reclassified.

Note 13 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses - continued

The Bank

	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
December 31, 2015						
Balance of provision for credit losses at start of period	632	624	138	1,394	5	1,399
Expenses with respect to credit losses	149	9	44	202	(2)	200
Accounting write-offs	(211)	(20)	(91)	(322)	-	(322)
Recovery of debts written off for accounting purposes in previous years	127	1	51	179	-	179
Net accounting write-offs	(84)	(19)	(40)	(143)	-	(143)
Balance of provision for credit losses at end of period	697	614	142	1,453	3	1,456
Of which: With respect to off balance sheet credit instruments	97	-	8	105	-	105
December 31, 2014						
Balance of provision for credit losses at start of period	(2)630	(2)640	119	1,389	8	1,397
Expenses with respect to credit losses	83	6	68	157	(7)	150
Accounting write-offs	(220)	(22)	(105)	(347)	-	(347)
Recovery of debts written off for accounting purposes in previous years	139	-	56	195	4	199
Net accounting write-offs	(81)	(22)	(49)	(152)	4	(148)
Balance of provision for credit losses at end of period	632	624	138	1,394	5	1,399
Of which: With respect to off balance sheet credit instruments	92	-	9	101	-	101
December 31, 2013						
Balance of provision for credit losses at start of period	(2)726	(2)815	123	1,664	8	1,672
Expenses with respect to credit losses	41	190	52	283	-	283
Accounting write-offs	(248)	(1) (365)	(121)	(734)	-	(734)
Recovery of debts written off for accounting purposes in previous years	111	-	65	176	-	176
Net accounting write-offs	(137)	(365)	(56)	(558)	-	(558)
Balance of provision for credit losses at end of period	630	640	119	1,389	8	1,397
Of which: With respect to off balance sheet credit instruments	92	-	10	102	-	102

(1) Write-off of housing loans fully provided for, amounting to NIS 281 million.
(2) Reclassified.

Note 14 - Loans to Governments

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2015	2014	2015	2014
Loans to Government of Israel	-	-	-	-
Loans to foreign governments	316	307	316	307
Total loans to governments	316	307	316	307

Note 15 - Investments in Investees and Details

As of December 31

Reported amounts (NIS in millions)

A. Consolidated

	2015			2014		
	Associates	Subsidiaries(1)	Total	Associates	Subsidiaries(1)	Total
Investment in shares stated on equity basis	1	-	1	17	-	17
Subordinated notes and capital notes	35	-	35	35	-	35
Total investments	36	-	36	52	-	52
Of which:						
Losses accrued since acquisition date	(14)	-	(14)	(14)	-	(14)
Post-acquisition items accrued in shareholders' equity:						
Adjustments from translation of financial statements	(1)	-	(1)	1	-	1
Details with regard to goodwill:						
Original amount	-	140	140	-	140	140
Balance	-	87	87	-	87	87

(1) Balance of goodwill with respect to subsidiaries is included on the Bank's balance sheet under Intangible Assets and Goodwill.

Note 15 - Investments in Investees and Details - continued

As of December 31

Reported amounts (NIS in millions)

B. The Bank

			2015			2014
	Associates	Subsidiaries[1]	Total	Associates	Subsidiaries[1][2]	Total
Investment in shares stated on equity basis	1	2,073	2,074	17	1,928	1,945
Subordinated notes and capital notes	35	550	585	35	531	566
Total investments	36	2,623	2,659	52	2,459	2,511
Of which:						
Gains (losses) accrued since acquisition date	(14)	1,217	1,203	(14)	1,073	1,059
Post-acquisition items accrued in shareholders' equity:						
Adjustments from translation of financial statements	(1)	-	(1)	1	-	1
Adjustments for presentation of available-for-sale securities at fair value, net	-	-	-	-	(1)	(1)
Changes in Other Comprehensive Income with respect to employee benefits, net	-	(5)	(5)	-	(5)	(5)
Details with regard to goodwill:						
Original amount	-	140	140	-	140	140
Balance	-	87	87	-	87	87

Bank's share in profits (losses) of investees:

			Consolidated			The Bank
	2015	2014	2013	2015	2014	2013
Bank share of before-tax profit (loss) of investees	-	5	(4)	218	196	173
Provision for taxes:						
Current taxes	-	-	-	(70)	(53)	(54)
Deferred taxes	-	-	-	1	1	(1)
Total provision for taxes	-	-	-	(69)	(52)	(55)
Bank share of after-tax profit (loss) of investees[3]	-	5	(4)	149	144	118

(1) Includes goodwill.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

(3) There are no losses or reversal of losses from impairment of investees.

Note 15 - Investments in Investees and Details - continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
				As of December 31	
		2015	2014	2015	2014
C. Details of principal investees[2]					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd.[3]	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland)[4]	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
2) Associates					
Psagot Jerusalem Ltd. ("Psagot")	Land for construction	20% [8]	20% [8]	20%	20%
Rosario Capital Ltd. ("Rosario")	Underwriting company	19.99%	19.99%	19.99%	19.99%
Mustang Mezzanine Fund Limited Partnership	Extending credit	20%	20%	-	-
Planus Technology Fund	Extending credit	20%	20%	-	-
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)					
United Mizrahi Bank (Switzerland) Ltd.[6]	Commercial bank	100%	100%	100%	100%

(1) Includes capital notes.

(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.

(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill and on the Bank's balance sheet under Investments in Investees.

(4) The company is incorporated in Holland; for a subsidiary of the Company, see section C.3.

(5) Includes gain due to devaluation of the shekel, relative to foreign currency exchange rates, amounting to NIS 1 million in 2015 (in 2014 – gain amounting to NIS 14 million).

(6) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland. The investment is presented on the Bank's financial statements as an affiliate whose functional currency is identical to the Bank's.

(7) Revaluation of the NIS vs. the CHF had no effect on profit in 2015.

(8) Share of contribution in case of loss is 27%.

(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

(10) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

(11) Including adjustments from translation of financial statements, adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.

Investment in shares at equity value[9]		Goodwill balance[3]		Other capital investments[1]		Contribution to net profit (loss) attributable to equity holders of the banking corporation		Dividend recorded		Other items accrued under shareholders equity[11]	
				As of December 31		For the year ended December 31,		For the year ended December 31,		For the year ended December 31,	
2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
637	577[10]	69	69	550	531	60	31	-	-	-	(3)[10]
816	748	-	-	-	-	68	72	-	-	-	-
329	326	-	-	-	-	3[5]	17[5]	-	-	-	-
27	26	-	-	-	-	1	1	-	-	-	-
43	42	-	-	-	-	1	1	-	-	-	-
44	33	-	-	-	-	11	9	-	-	-	-
			-								
(16)	(16)	-	-	35	35	-	-	-	-	-	-
2	2	-	-	-	-	-	1	-	(1)	-	-
13	25	-	-	-	-	1	4	-	-	(2)	3
2	6	-	-	-	-	(1)	-	-	-	-	1
227	224		-		-	3[7]	6[7]				

Note 15 - Investments in Investees and Details - continued

Reported amounts (NIS in millions)

D. Balance of goodwill with respect to subsidiaries:[1][2]

			December 31, 2015
	Cost	Accumulated amortization	Amortized balance
Consolidated	140	53	87
The Bank	140	53	87

(1) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2015 amounted to NIS 14 million (similar to amortized balance as of December 31, 2014 and as of December 31, 2013), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2015 amounted to NIS 4 million (similar to amortized balance as of December 31, 2014 and as of December 31, 2013).

(2) Balance of goodwill with respect to subsidiaries is included on the consolidated balance sheet under Intangible Assets and Goodwill and on the Bank's balance sheet under Investments in Investees.

Note 16 - Buildings and Equipment

Reported amounts (NIS in millions)

	Consolidated							The Bank
	Buildings and land (including installations and leasehold improve-ments)	Equipment, furniture, and vehicles	Cost of software	Total	Buildings and land (including installations and leasehold improve-ments)	Equipment, furniture and vehicles	Cost of software	Total
A. Composition								
Cost of assets								
December 31, 2013	1,523	999	1,274[(1)]	3,796	1,312	814	[(1)]1,239	3,365
Additions	69	72	[(1)]155	296	64	66	[(1)]112	242
Disposals	(31)	(7)	-	(38)	(31)	(6)	-	(37)
Cost of assets as of December 31, 2014	1,561	1,064	[(1)]1,429	4,054	1,345	874	[(1)]1,351	3,570
Additions	28	48	179	255	22	36	117	175
Disposals	(56)	-	-	(56)	(56)	-	-	(56)
Cost of assets as of December 31, 2015	1,533	1,112	1,608	4,253	1,311	910	1,468	3,689
Depreciation and impairment loss								
Accumulated as of December 31, 2013	597	732	[(1)]931	2,260	502	577	908	1,987
Depreciation	37	62	[(1)]127	226	25	53	[(1)]122	200
Impairment	-	-	[(1)]20	20	-	-	[(1)]20	20
Disposals	(17)	(5)	-	(22)	(17)	(4)	-	(21)
Accumulated as of December 31, 2014	617	789	[(1)]1,078	2,484	510	626	[(1)]1,050	2,186
Depreciation	38	65	120	223	27	56	113	196
Impairment	-	-	-	-	-	-	-	-
Disposals	(37)	-	-	(37)	(37)	-	-	(37)
Accumulated depreciation as of December 31, 2015	618	854	1,198	2,670	500	682	1,163	2,345
Carrying amount:								
As of December 31, 2015 (2)	915	258	410	1,583	811	228	305	1,344
As of December 31, 2014[(2)]	944	275	[(1)]351	1,570	835	248	[(1)]301	1,384
As of December 31, 2013[(2)]	926	267	[(1)]343	1,536	810	237	[(1)]331	1,378
Weighted average depreciation rate as of December 31, 2015	4.2%	13.6%	24.6%		3.5%	12.1%	24.5%	
Weighted average depreciation rate as of December 31, 2014	4.0%	13.8%	[(1)]24.2%		3.0%	12.2%	[(1)]24.6%	

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.C.2 to the financial statements.

(2) Includes amortized capitalized cost of independently developed computer software as of December 31, 2015 amounting to NIS 206 million - consolidated and NIS 178 million for the Bank (December 31, 2014[(1)] - NIS 205 million consolidated and NIS 195 million for the Bank; December 31, 2013 - NIS 223 million, consolidated and for the Bank).

Note 16 - Buildings and Equipment - continued

Reported amounts (NIS in millions)

B. Additional information

Depreciation rates are as follows:

Buildings	2%-4%
Leasehold improvements	10%
Office equipment and furniture	6%-25%
Vehicles	15%-20%
Computers, software usage rights and costs	20%-33%

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
C. Assets not used by the Group (depreciable balance):				
Not designated for sale	43	48	43	48
Includes - leased to others	43	48	43	48
Designated for sale(1)	8	5	8	5

(1) In addition, assets used by the Group and designated for sale s of December 31, 2015 amounted to NIS 31 million (as of December 31, 2014 - NIS 7 million).

	End dates	Consolidated		The Bank	
	Lease term	December 31,		December 31,	
	(In years)	2015	2014	2015	2014
D. Leasehold rights in buildings (depreciable balance)					
Capitalized lease	4-57	69	73	69	73
Non-capitalized lease	0-8	28	28	28	28

E. This item includes installations, leasehold rights and payments on account. Part of the buildings and leasing rights, amounting to NIS 322 million on consolidated and to NIS 298 million for the Bank (as of December 31, 2014 - NIS 328 million consolidated and NIS 303 million for the Bank), have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries, primarily due to delays in land consolidation or where rights are in the process of being recorded.

F. As of December 31, 2015, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 3 million (December 31, 2014 – NIS 6 million).

Note 17 - Other Assets

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
Deferred taxes receivable, net[1]	929	929[2]	870	870[2]
Excess of advance tax payments over current provisions	112	186	56	137
Revenues receivable	111	105	51	43
Other receivables and debit balances	848	942	823	914
Total other assets	2,000	2,162[2]	1,800	1,964[2]

(1) See Note 8 to the financial statements.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Note 18 - Deposits from the Public

As of December 31

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	Consolidated		The Bank	
	2015	2014	2015	2014
In Israel				
On-call				
Non interest-bearing	33,973	22,540	26,325	17,176
Interest-bearing	7,117	5,933	4,947	4,690
Total on-call	41,090	28,473	31,272	21,866
Term deposits	117,271	119,751	129,382	126,403
Total deposits in Israel(1)	158,361	148,224	160,654	148,269
Outside of Israel				
On-call				
Non interest-bearing	556	682	556	682
Interest-bearing	7	6	7	6
Total on-call	563	688	563	688
Term deposits	3,456	3,467	2,991	2,877
Total deposits overseas	4,019	4,155	3,554	3,565
Total deposits from the public	162,380	152,379	164,208	151,834

(1) Of which:

Deposits from individuals	76,291	70,707	57,228	53,276
Deposits from institutional investors	37,523	44,010	37,523	44,010
Deposits from corporations and others	44,547	33,507	65,903	50,983

B. Deposits from the public by size

	Consolidated	
	2015	2014
Maximum deposit		
Up to 1	55,171	50,887
Over 1 to 10	34,787	31,119
Over 10 to 100	17,311	15,522
Over 100 to 500	16,776	15,511
Above 500	38,335	39,340
Total	162,380	152,379

Note 19 - Deposits from Banks

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
In Israel				
Commercial banks:				
On-call deposits	117	75	137	79
Term deposits	786	1,001	9,212	8,083
Acceptances	253	168	253	168
Outside of Israel				
Commercial banks:				
On-call deposits	9	2	-	-
Term deposits	1	12	-	3
Total deposits from banks	1,166	1,258	9,602	8,333

Note 20 - Debentures and Subordinated Notes

As of December 31

Reported amounts (NIS in millions)

	Average maturity in years (1)	Internal rate of return(2)	Consolidated 2015	Consolidated 2014	The Bank 2015	The Bank 2014
Debentures and subordinated notes not convertible into shares:						
In Israeli currency - non-linked						
Debentures	5.56	2.35%	4,883	2,376	-	-
Subordinated notes(3)	6.36	3.52%	100	-	100	-
In Israeli currency - CPI-linked						
Debentures	2.84	0.93%	13,173	11,871	-	-
Subordinated notes(3)	4.68	4.65%	5,563	6,333	3,027	3,777
Total debentures and subordinated notes	4.44	2.41%	23,719	20,580	3,127	3,777

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.

(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.

(3) Upon dissolution, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Business Conduct Directive 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, with the changes required by the terms of the subordinated notes.

Note 20 - Debentures and Subordinated Notes - continued

On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).

On January 21, 2016, Ma'alot rated the complex equity instruments ilA+.

The balance of subordinated capital notes (Series A) as of December 31, 2015 amounted to NIS 1,964 million, NIS 1,702 million par value for consideration of NIS 1,644 million.

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued to the public CPI-linked pursuant to prospectus, debentures and subordinated notes with a par value of NIS 12,847 million and non-linked debentures with a par value of NIS 4,791 million, as of December 31, 2015, and deposited the proceeds in the Bank earmarked for its day-to-day activities.

To secure fulfillment of the Company's obligations with respect to some of the debentures and subordinated notes totaling NIS 200 million, the Company undertook to assign all of its rights in each of the deposits that it had deposited in the Bank from the proceeds of securities offered pursuant to the Prospectus in favor of the Trustee of the issued securities.

In 2015, the Company issued additional debentures (Series 37) amounting to NIS 820 million par value for consideration of NIS 845 million and issued new debentures (Series 39,40,41 and 42) amounting to NIS 3,150, 752, 1,977 and 351 million par value, respectively for consideration of NIS 3,150, 752, 1,987 and 351 million. In total, the company issued NIS 7,050 million par value for consideration amounting to NIS 7,085 million.

C. On December 30, 2015, the Bank issued for the first time contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 417 million.

These notes qualify pursuant to Basel III provisions and recognized by the supervisor of Banks as Tier II capital.

In January 2016, after the balance sheet date, the Bank issued additional contingent subordinated notes amounting to NIS 183 million.

Note that according to the Bank's capital planning forecast, the issue of contingent subordinated notes should fulfill the Bank's need for supervisory capital at least through 2017.

Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

Note 21 - Other Liabilities

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
Provision for deferred taxes, net(1)	26	(3)19	26	(3)19
Excess of provision over funding severance pay, retirement and pension(2)	763	(3)772	733	(3)745)
Unearned revenues	164	231	164	231
Accrued expenses	252	(3)250	216	(3)186
Provision for unutilized vacations and long- service bonus	197	(3)159	126	(3)120
Guarantees payable	84	73	84	73
Provision for doubtful debts for off-balance sheet and other items	106	102	105	101
Payables for credit card operations	3,530	3,292	2,218	2,059
Market value of securities sold short	122	390	122	390
Other payables and credit balances	542	929	516	893
Total other liabilities	5,786	(3)6,217	4,310	(3)4,817)

(1) See Note 8 to the financial statements.
(2) See Note 22 to the financial statements.
(3) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Note 22 - Employee Rights

A. Description of benefits

1. On June 17, 2013, the General Meeting of shareholders approved the Bank contracting of terms of office and employment of the Chairman of the Bank Board of Directors.

   Below is a summary of terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman, in conformity with the approved employment agreement (hereinafter: "the previous employment agreement").

   Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and was terminated on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice.

   For his work, the Chairman is entitled to monthly salary at NIS 180 thousand, fully linked to the Consumer Price Index, based on the CPI known on December 1, 2012. The Chairman will also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments will be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas.

   The Bank provides to the Chairman of the Board of Directors a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

   Pursuant to the previous employment agreement, upon termination of the Chairman's employment, the Bank will pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank will also pay an acclimation bonus equal to 6 monthly salaries plus social benefits.

   In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he will be paid additional amounts as stated in the employment agreement - subject to conditions specified in the employment contract.

   Upon termination of the Chairman, the Bank will provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank will also release the study fund to the Chairman.

Note 22 - Employee Rights - Continued

On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full amount with respect to the discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2013, such that the total annual bonus paid to the Chairman of the Board of Directors for 2013 amounted to NIS 1,016 thousand.

On September 9, 2015, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full amount with respect to the discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2014, such that the total annual bonus paid to the Chairman of the Board of Directors for 2014 amounted to NIS 764 thousand.

In 2015, the Chairman of the Board of Directors is eligible, based on quantitative benchmarks in the annual bonus eligibility formula, to a bonus amounting to NIS 518 thousand. The Remuneration Committee and the Board of Directors also approved award of the discretionary component in full, for a total of NIS 246 thousand (1.35 months' salary) with respect to 2015. Approval of the discretionary component of the annual bonus is subject to approval by the General Assembly of shareholders.

In addition, the Chairman is eligible to receive a bonus equal to 3.9 months' salary with respect to 2013-2015, amounting to NIS 711 thousand.

On January 25, 2016, the Bank’s Board of Directors, after receiving approval by the Remuneration Committee dated January 20, 2016, resolved to approve the terms of office and employment of Mr. Moshe Vidman as Chairman of the Bank’s Board of Directors in conformity with the approved employment agreement (hereinafter: "the additional employment agreement"). As of the signing date of the financial statements, the additional agreement with the Chairman of the Board of Directors is yet to be approved by the General Meeting of shareholders. The employment term according to the additional employment agreement is from December 1, 2015 through December 31, 2017 and will be automatically renewed, every year, for one additional year - all subject to provisions of the employment agreement. For his work, the Chairman is entitled to a monthly salary at NIS 220 thousand, fully linked to the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 13.33% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contribution to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing three months' advance notice to the other party.

Note 22 - Employee Rights - Continued

During the notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the notice period in which the Bank waived the Chairman's work - in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

Upon termination of employment pursuant to the additional employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries (hereinafter: "Acclimation bonus").

The additional employment agreement also specifies that the acclimation bonus payable to the Chairman of the Board of Directors, as noted above, is the sole acclimation bonus for which the Chairman of the Board of Directors would be eligible upon termination of their employment pursuant to the additional employment agreement and the Chairman of the Board of Directors will not be eligible for an acclimation bonus with respect to their employment period pursuant to the previous employment agreement.

The Bank will pay to the Chairman of the Board of Directors the retirement bonus hew is eligible for pursuant to the previous employment agreement, with respect to employment from December 1, 2012 through November 30, 2015, equal to 150% of the Chairman's final salary pursuant to the previous employment agreement, multiplied by the number of years of service (three years) pursuant to the previous employment agreement.

It is hereby clarified that the Chairman of the Board of Directors is not eligible to a retirement bonus pursuant to the additional employment agreement and that payment of the retirement bonus to the Chairman pf the Board of Directors upon termination of his employment would be in conformity with his eligibility for a retirement bonus pursuant to the previous employment agreement as noted above.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 (hereinafter: "the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay aw, gross (hereinafter: "Statutory severance pay"), then the aforementioned retirement bonus (pursuant to the previous employment agreement), in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the retirement bonus amount together be lower than the statutory severance pay - then the Bank will make up the difference up to the statutory severance pay.

Note 22 - Employee Rights - Continued

2. On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013.

   On May 4, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee, the Bank President's terms of office and employment. On June 10, 2014, these terms of office and employment were approved by the General Meeting of Bank shareholders.

   Employment terms of the President & CEO were determined in conformity with the Bank's officer remuneration policy, as adapted to Proper Conduct of Banking Business regulation 301A with regard to remuneration policy at banking corporation. This policy was approved by the Remuneration Committee, the Bank's Board of Directors and the General Meeting of Bank shareholders.

   Below is a summary of the terms of office and employment of the Bank President & CEO - as listed in Appendix B to a report issued by the Bank on May 4, 2014, reference 2014-01-056838 (hereinafter: "Appendix B to the immediate report"):

   The employment contract is for an unlimited term and either party may terminate it for any reason by three months' advance notice to the other party.

   For his work, the Bank President is entitled to monthly salary at NIS 185 thousand, fully linked to the Consumer Price Index, based on the CPI known on August 16, 2013, and to benefits.

   The Bank provides to the Bank President a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Bank President & CEO, to a study fund at 7.5% of his salary.

   Upon termination of the Bank President & CEO's employment, at any time and for any reason, the Bank will pay him a retirement bonus equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank will also issue a letter releasing all contributions made pursuant to the individual employment contract signed by the Bank and by the Bank President & CEO, with regard to the latter's work for the Bank prior to their appointment as President & CEO.

   The Bank will also release to the President his study fund and will also pay, in exchange for non-competition, an acclimation bonus equal to 6 monthly salaries plus social benefits. Furthermore, upon termination of the Bank President's employment, he will be paid other amounts as described in the employment contract, subject to conditions specified in the employment contract.

   The Bank President committed that for six (6) months after termination of his position and employment with the Bank, for any reason, he will not directly or indirectly act or engage in or on behalf of any other banking corporation and would not serve as officer of or on behalf of any entity which competes with Bank business.

Note 22 - Employee Rights - Continued

Variable remuneration based on targets and performance

According to the employment contract, the Bank President will be eligible for a monetary bonus and equity-based remuneration, in conformity with the Bank's remuneration policy as it may be from time to time, with a mix and subject to conditions as approved.

Monetary bonus – According to the employment contract, the Bank President will be eligible for a monetary bonus, capped at NIS 1,517 thousand plus CPI linkage differentials, based on the CPI known on August 16, 2013 - for each calendar year between 2014-2016. This is subject to meeting threshold conditions during the bonus year, based on rates of return on equity, overall capital adequacy ratio and core capital adequacy ratio at the Bank for the bonus years. The monetary bonus is performance-dependent and constitutes part of the Bank President's variable remuneration. For details of threshold conditions for eligibility for the monetary bonus, conditions for eligibility for the monetary bonus, the Board of Directors' authority to reduce the monetary bonus and provisions with regard to reimbursement of the monetary bonus – see Appendix B to the Immediate Report.

Equity-based remuneration – As part of the Bank President's variable remuneration for 2014-2016, the Bank President is eligible for equity-based remuneration which includes a plan for award of options by private offering the Bank President.

For more information about the option plan, see Note 23.A. to the financial statements.

3. Officer remuneration policy

On November 19, 2013, the Supervisor of Banks issued Proper Banking Conduct Directive 301A concerning remuneration policies at banking corporations. As this directive became effective and further to discussions between the Bank and the Supervisor of Banks, the Bank has acted to revise the remuneration policy for officers, approved by the General Meeting of Bank shareholders on August 27, 2013 (hereinafter: "the original remuneration policy").

Accordingly, on April 29, 2014, the Remuneration Committee resolved to recommend that the Bank's Board of Directors should approve the revision of the original remuneration policy. On May 4, 2014, the Bank's Board of Directors approved the aforementioned policy and on June 10, 2014, the General Meeting of Bank shareholders approved the revised officer remuneration policy.

The revised remuneration policy incorporates provisions of the Companies Law and directives by the Supervisor of Banks concerning remuneration, with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, *inter alia*, to the Bank's strategic plan and to current employment terms of officers at the Bank.

Note 22 - Employee Rights - Continued

The remuneration of officers, other than Board members, will include two major components: A monthly salary (as well as related benefits) and variable, performance-based remuneration which will include a monetary bonus and long-term share-based remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

As stipulated by Bank of Israel directives with regard to remuneration, the maximum variable remuneration shall not exceed 100% of the fixed remuneration. The Bank Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 77% of fixed remuneration and that such officers would be eligible for a retention bonus equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

The reasons cited by the Remuneration Committee and by the Bank's Board of Directors for approval of the revised remuneration policy were:

- The revised remuneration policy is in conformity with Regulation 301A.
- The revised remuneration policy is in conformity with statutory provisions and offers Bank management tools for recruiting and preserving officers with skills appropriate for the Bank, since officer remuneration terms are a proper incentive for incumbents and future candidates for senior positions with the Bank.
- When setting the revised remuneration policy, the Remuneration Committee and the Bank's Board of Directors reviewed the current situation at the Bank as well as officer remuneration at other major banks.

- The remuneration composition was specified by position, with a distinction made between officers who are gatekeepers and other officers.
- The variable components in the revised remuneration policy, including how they are determined and their ratio to the fixed component, were reviewed with attention to the officer's contribution to achievement of Bank objectives, considering the Bank's strategic plan and maximizing Bank profit, from a long-term view and based on the officer's role.
- The revised remuneration policy provides Bank management with reasonable leeway in exercising judgment when setting officers' remuneration terms. The ratio of officers' remuneration to that of other Bank employees is reasonable and should not affect labor relations at the Bank due, *inter alia*, to the Bank structure where officers are few in proportion to all Bank employees and due to the differences in roles and responsibilities of officers compared to other Bank employees. It was further noted that these ratios reflect common remuneration gaps in the Israeli banking system, given that the Bank enjoys correct labor relations.

Note 22 - Employee Rights - Continued

- The revised remuneration policy is in line with the Bank's results in recent years.
- For more information about the revised remuneration policies, its guidelines and scope – see Appendix A to Immediate Report dated May 4, 2014, reference 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

4. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank’s liability for these payments is covered by provisions, based on an actuarial calculation.

5. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years’ time, reach seventeen months’ salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees.
The Bank’s liability for these payments is covered by provisions, based on an actuarial calculation.

6. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months’ salary, for which a provision was recorded in the financial statements.

7. Senior bank employees are eligible, upon retirement, to receive increased severance pay at 150% of their salary for December 2011, multiplied by their number of years of service with the Bank as of said date, linked to the Consumer Price Index. Such severance pay is in addition to contributions made in their name to funds, as required by law. The employee is also eligible to a six-month acclimation period based on their final monthly salary.

   A senior employee is also eligible, upon leaving the Bank, to early retirement pension at 70% of the amount specified in a special agreement dated 2010, linked to the Consumer Price Index.
   A provision was recorded on the financial statements with respect to these entitlements.

8. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

Note 22 - Employee Rights - Continued

9. On September 16, 2009, a special collective bargaining agreement was signed with the employee union - clerks sector, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

   Highlights of this agreement are as follows:

   - Extension of the "employment constitution" through December 31, 2015.
   - Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
   - Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
   - The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
   - Enactment of a voluntary retirement program by up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
   - Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

   The cost of the voluntary retirement program is covered by an actuarial provision.

   In late 2015,an economic arbitration process was launched between the Bank and the employee union, to discuss the demands made by the employee union for 2005-2015. The Bank records, as necessary, appropriate provisions.

10. Long-service bonuses
    Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

11. Reserves with respect to long-service bonuses and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA - and yields to maturity, for the same term to maturity, for US government debentures, all as of the reporting date.
    The calculation takes into account future real increase in pay of between 1.75%-3.5%.

Note 22 - Employee Rights - Continued

The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

For details of adoption of US GAAP for employee rights, including changes to setting the discount rate, see Note 1.C.1 to the financial statements.

12. Reserve with respect to tuition pay

    Bank employees under the collective bargaining agreement are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

13. Bonuses for all Bank employees

    On June 19, 2014, the Bank's Board of Directors, based on recommendations by the Remuneration Committee, approved a remuneration policy for all Bank employees other than officers. The remuneration policy is based on Proper Banking Conduct Directive 301A with regard to remuneration policy at banking corporations (hereinafter: "the remuneration policy"). The remuneration policy discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2014-2016.

    The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

14. At Bank Yahav, the Bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in provident funds.

    To some of its employees, Bank Yahav committed to deliver, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to make up the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

    Bank Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the Bank. To some, the Bank has committed to release to them the severance pay component accrued in the pension fund, in addition to their final salary multiplied by their number of years in service.

    Bank Yahav committed to make monthly payments through the official retirement age to two senior executives who retired from Bank Yahav, with this payment linked to changes in the salary of Bank Yahav's CEO.

    Bank Yahav's commitments are covered by appropriate reserves and provisions based on actuarial calculation.

Note 22 - Employee Rights - Continued

B. Liability amounts with respect to benefits by type:

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
				NIS in millions
Post-retirement benefits[1]				
Liability amount	141	130	141	130
Fair value of plan assets	-	-	-	-
Excess liability over plan assets	141	130	141	130
Benefits post termination and prior to retirement[2]				
Liability amount	726	741	592	615
Fair value of plan assets	104	99	-	-
Excess liability over plan assets	622	642	592	615
Benefits prior to termination[3]				
Liability amount	64	58	64	58
Fair value of plan assets	-	-	-	-
Excess liability over plan assets	64	58	64	58
Total				
Excess liability included under Other Liabilities	827	830	797	803
Of which: With respect to overseas employee benefits	10	8	10	8

(1) Holiday gifts and other post-retirement employee benefits
(2) Pension, severance pay and other benefits on defined-benefit plan, including balance of liability with respect to employees who have retired.
(3) Primarily jubilee bonus and tuition for current employees.

Note 22 - Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

		Consolidated
	December 31,	
	2015	2014
		NIS in millions
Obligation with respect to expected benefit at start of period	871	870
Cost of service	26	20
Cost of interest	31	28
Actuarial loss	7	47
Benefits paid	(68)	(95)
Other	-	1
Obligation with respect to expected benefit at end of period	867	871
Obligation with respect to cumulative benefit at end of period[2]	816	757

1.2. Change in fair value of plan assets and plan funding status

		Consolidated
		December 31,
	2015	2014
		NIS in millions
Fair value of plan assets at start of period	99	107
Actual return on plan assets	1	7
Deposits to plan by the banking corporation	6	6
Benefits paid	(2)	(21)
Fair value of plan assets at end of period	104	99
Funding status - net asset (liability) recognized at end of period	104	99

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.
(2) Excludes any assumptions with regard to future remuneration.

Note 22 - Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status - continued

1.3. Amounts recognized on the consolidated balance sheet

		Consolidated
	December 31,	
	2015	2014
		NIS in millions
Amounts recognized under Other Liabilities	763	772
Net liability recognized on the balance sheet at end of period	763	772

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

		Consolidated
	December 31,	
	2015	2014
		NIS in millions
Net actuarial loss	150	68
Net liability with respect to transition	8	87
Total - recognized under Other Comprehensive Income	158	155

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

		Consolidated
	December 31,	
	2015	2014
		NIS in millions
Obligation with respect to expected benefit	867	871
Obligation with respect to cumulative benefit	816	757
Fair value of plan assets	104	99

Note 22 - Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

2. Expenses during the reported period

2.1. Net benefit cost components recognized on Profit and Loss

	For the year ended December 31,		
	2015	2014	2013
			NIS in millions
Cost of service	26	20	32
Cost of interest	31	28	39
Expected return on plan assets	(4)	(4)	(4)
Deduction of non-allowed amounts			
Net actuarial loss (gain)	4	1	-
Total benefit cost, net	57	45	67

2.2. Changes to obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the year ended December 31,		
	2015	2014	2013
			NIS in millions
Net actuarial loss (gain) for the period	7	47	19
Amortization of actuarial loss[2]	(4)	(1)	-
Total - recognized under Other Comprehensive Income	3	46	19
Total benefit cost, net	57	45	67
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	60	91	86

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2016, before tax effect

	NIS in millions
Net actuarial loss[2]	9
Total expected to be deducted from Cumulative Other Comprehensive Income	9

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Actuarial loss due to current changes in discount rates during the reported year and actuarial gain / loss due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.C.1 to the financial statements.

Note 22 - Employee Rights – Continued

D. Assumptions

1. Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

1.1. Key assumptions used to determine the obligation with respect to benefit:

		Consolidated
		December 31,
	2015	2014
		NIS in millions
Discount rate	2.00%	1.65%
Discount rate - CPI	2.00%	2.00%
Departure rate	4.20%	4.20%
Remuneration increase rate	1.75%	1.75%

1.2. Key assumptions used to measure benefit cost for the period (in %):

			Consolidated
			December 31,
	2015	2014	2013
			NIS in millions
Discount rate	4.17%	4.17%	4.20%
Expected long-term return on plan assets	4.08%	4.68%	4.76%
Remuneration increase rate	1.75%	1.75%	1.75%

1.3. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point		Decrease by 1 percentage point	
		December 31,		December 31,
	2015	2014	2015	2014
Discount rate	(61)	(43)	74	50
Departure rate	82	156	(100)	(80)
Remuneration increase rate	44	36	(36)	(29)

Note 22 - Employee Rights – Continued

E. Plan assets

1.1. Fair value composition of plan assets

Property type	December 31,	
	2015	2014
Shares	21	27
Government assistance to legacy pension funds	11	14
Other	10	5
Debentures: Government	20	15
Designated Government	23	21
Corporate	19	17
Total	104	99

1.2 Fair value of plan assets by asset type and allocation target for 2015 (in %)

	Allocation target	Percentage of plan assets	
Property type	For	As of December 31	
	2016	2015	2014
Shares	20.7	20.7	27.2
Government assistance to legacy pension funds	10.4	10.3	13.8
Other	8.5	9.3	5.4
Debentures: Government	20.3	19.4	15.2
Designated Government	22.3	21.9	21.6
Corporate	17.8	18.4	16.8
Total	100.0	100.0	100.0

1.3 Deposits to defined-benefit pension plans

	Allocation target	Actual deposits	
Property type	For	For the year ended December 31,	
	2016[(1)]	2015	2014
Deposits	6.0	6.0	6.0

(1) Estimated deposits to be paid into defined-benefit pension plans in 2016.

Note 22 - Employee Rights – Continued

F. Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2015	84.0
2016	79.4
2017	74.1
2018	66.3
2019	60.6
2021-2025	187.7
2026 and later	497.5
Total	1,050.1

Note 23 - Share-based Payment Transactions

A. Stock option plan for the President

As part of the option plan and in conformity with its terms and conditions, the Bank will allot to a trustee, on behalf of the Bank President & CEO, options in three annual lots as follows: 186,915 options for 2014, 177,720 options for 2015 and 172,503 options for 2016. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercise shares, all options allotted under the stock option plan to the Bank President pursuant to the option plan (based on the report "Equity status and securities registries of the corporation and changes there to", issued by the Bank on April 10, 2014) would be equal to 0.23% of the Bank's issued share capital and voting rights (after allotment of the full number of exercise shares), and assuming full dilution – 0.18% of the Bank's issued share capital and voting rights.

The President & CEO's eligibility for options allotted with respect to any bonus year is contingent on the following threshold conditions being fulfilled for the bonus year:

1. Return on equity for the bonus year shall be at least 9%;
2. Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations

The Bank President's eligibility for options included in any annual lot would be calculated soon after publication of the Bank's financial statements for the bonus year for which the annual lot has been allotted, based on fulfillment of the specified eligibility conditions.

Each of the annual lots for 2014-2016 would vest in three equal parts as from April 1 of 2016-2020, as stated in Appendix B to the Immediate Report.

The exercise price for each option to be allotted to the Bank President pursuant to the plan is NIS 46.19 plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually allotted to the Bank President.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 26.7%-32.1%, reflecting the standard deviation for periods of 3.41-7.42 years. Risk-free interest ranges between (0.82%)-0.55% for the various lots.

Note 23 - Share-based Payment Transactions - continued

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is as follows: Options included in the first lot - NIS 7.90; options included in the second lot - NIS 8.37; options included in the third lot - NIS 8.67.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 4.5 million (NIS 5.3 million including Payroll Tax). This value will be recognized over the eligibility period in non-linear fashion.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the Bank President from exercise of these options shall be taxed at the marginal tax rate applicable to the Bank President upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the President from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the Bank President & CEO, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

In conformity with financial results for 2014, in 2015 some 72,843 options with an exercise price of NIS 46.19 were forfeited. As of December 31, 2015, the President & CEO has a total of 464,295 options at an exercise price of NIS 46.19.

B. Stock option plan for VPs

On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of options by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). The Board of Directors further decided, after obtaining approval of the Audit Committee, that allotment of the options is contingent on the Supervisor of Banks allowing the Bank to buy back at least 1,400,000 shares of NIS 0.1 par value in the Bank's issued share capital. For details of 2,500,000 Bank shares bought back by the Bank in accordance with approval of the Supervisor of Banks, see Note 24.D. above.

Each offeree pursuant to the stock option plan consented, by their own choice, that should the Bank allot to them stock options pursuant to the plan, they would be excluded from the framework bonus plan for Bank officers for each of the years 2009 through 2012, and would not be included in a bonus plan for Bank officers for 2013, should such plan be approved by the Bank.

Note 23 - Share-based Payment Transactions - continued

In conjunction with the stock option plan, the Bank allotted on June 23, 2009 to the trustee, on behalf of the offerees, 5,850,000 options which would not be listed for trading on the stock exchange. The options may each be exercised for one Bank ordinary share of NIS 0.1 par value for no consideration, subject to terms and conditions of the plan. Allotment of the maximum number of exercise shares is only theoretical. Upon the exercise date of the options, offerees would not be allotted the full number of exercised shares arising from the options which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned options.

The exercise price for each option allotted to offerees pursuant to the plan is NIS 21.18, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 - which was also the basis for the exercise price of options allotted to the Bank President as stated above. Note that the exercise price is higher than the closing price of Bank shares on the stock exchange on March 26, 2009 - the most recent trading day prior to the date on which the Board of Directors approved the stock option plan.

The options allotted to the trustee for each offeree, in accordance with the plan, were allotted in 5 equal lots. Each lot shall vest upon vesting dates on each anniversary of the allotment date, from the first anniversary (for the first lot) to the fifth anniversary (for the fifth lot).

In accordance with the original plan, each offeree will be eligible to exercise options included in the exercise lot which vested on any date, provided that the net operating profit return on the Bank's average shareholders' equity for the reported year preceding said vesting date should be 10% or higher. Should the aforementioned rate of return for the reported year prior to said vesting date be lower than 10%, the offeree may not exercise at any time the lot vested on said vesting date. The Bank's Board of Directors would be qualified, at its own discretion and subsequent to approval by the Audit Committee, to exclude the impact of non-recurring or extraordinary events from calculation of the annual rate of return for any reported period.

On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility rate for each of the stock option plans for VPs for lots vesting in 2011, 2012, 2013 and 2014, where the vesting eligibility would be determined based on annual rate of return in reported fiscal 2010, 2011, 2012 and 2013, respectively. Accordingly, it was resolved that the vesting eligibility rate for each of the stock option Plans for VPs would be reduced from 10% to 9%.

Note 23 - Share-based Payment Transactions - continued

The fair value (theoretical benefit value) of a single option in any lot of options was calculated in accordance with accounting standards, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting term. The following assumptions were used for calculation of fair value:

- The exercise price for each option, for the purpose of this calculation, is NIS 21.18.
- The expected term to exercise of each lot was assumed to be the average of the vesting period of each lot (from one year for lot 1, to five years for lot 5) and the plan term (7 years).
- Standard deviation for each lot was calculated using historical daily returns of the share price on the stock exchange over a period equal to the expected term of each lot.
- The risk-free interest rate was calculated based on quoted yield to maturity information for CPI-linked government debentures traded on the stock exchange, as published on March 26, 2009.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is %.
- For calculation of fair value, it was assumed that net operating profit return on the Bank's average shareholders' equity in each plan year would be 10% or higher.
- Calculation of the fair value does not account for the fact that the options would not be listed for trading on the stock exchange.

The number of options which the offerees may exercise shall be reviewed upon each reporting date, based on information available at that time. The results of this review may reduce the expense charged in the Bank's financial statements with respect to options over plan years, but may not change the fair value of each option included in each lot.

On November 9, 2009, the Bank Board of Directors, after obtaining approval by the Bank Audit Committee, resolved to approve allotment of a further 1,104,999 options, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs. The exercise price for each option allotted to the two additional offerees pursuant to the plan is NIS 29.85, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Note 23 - Share-based Payment Transactions - continued

On April 30, 2012, the Bank's Board of Directors resolved, after approval by the Bank Audit Committee, to approve a plan for award of 238,333 options to an officer who was hired by the Bank in March 2012. The option plan is based on the principles of the stock option plan for VPs at the Bank, as described above.

Options will awarded in 2 lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the award date, subject to net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option pursuant to the plan is NIS 33.79, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 29, 2012, the most recent trading day prior to the date of plan approval by the Board of Directors.

The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the options in this allotment amounts to NIS 1.7 million (NIS 1.9 million including Payroll Tax).

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offeree would be eligible to exercise based on management estimate of the range of annual rates of return, as stated above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Note 23 - Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Total
Allotment approved on March 29, 2009						
Number of options (in thousands)	910	910	910	650	650	4,030(1)
Annualized standard deviation	32.75%	32.04%	30.95%	30.11%	30.27%	
Exercise price (in NIS)	21.18	21.18	21.18	21.18	21.18	
Risk-free interest rate	0.65%	0.77%	0.92%	1.09%	1.28%	
Term to exercise (in years)	4.10	4.60	5.10	5.60	6.10	
Fair value per single option	4.78	5.02	5.19	5.39	5.77	
Total fair value per lot (NIS in thousands)	4,346	4,569	4,724	3,504	3,751	20,894
Allotment approved on November 9, 2009						
Number of options (in thousands)	65	260	260	260	260	1,105
Annualized standard deviation	35.00%	34.00%	33.00%	33.00%	32.00%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.46%	0.65%	0.83%	1.02%	1.20%	
Term to exercise (in years)	3.60	4.10	4.60	5.10	5.60	
Fair value per single option	8.00	8.39	8.73	9.16	9.44	
Total fair value per lot (NIS in thousands)	520	2,181	2,270	2,381	2,455	9,807
Allotment approved on April 30, 2012						
Number of options (in thousands)	-	-	-	108	130	238
Annualized standard deviation	-	-	-	30.23%	32.27%	
Exercise price (in NIS)	-	-	-	33.79	33.79	
Risk-free interest rate	-	-	-	0.20%	0.30%	
Term to exercise (in years)	-	-	-	2.70	3.20	
Fair value per single option	-	-	-	6.63	7.75	
Total fair value per lot (NIS in thousands)	-	-	-	718	1,008	1,726

(1) After expiration of 1,820 thousand options with respect to four VPs who resigned from the Bank.

Note 23 - Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2015		2014		2013	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	545,000	26.48	1,346,666	26.83	2,851,666	25.46
Exercised during the year(1)	485,000	26.74	801,666	26.96	1,505,000	23.55
Outstanding at year end	60,000	21.57	545,000	26.48	1,346,666	26.83

(1) The weighted average share price upon exercise of options into shares during 2015 was NIS 47.94 (2014 – NIS 44.51; 2013 - NIS 39.37).

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	December 31, 2015			December 31, 2014			December 31, 2013		
(in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	60,000	-	-	325,000	90,000	130,000	715,000	393,333	238,333
Weighted average exercise price (in NIS)	21.57	-	-	22.14	30.64	34.44	22.16	30.67	34.47
Weighted average remaining contractual term (in years)	0.48	-	-	1.48	1.48	1.48	2.48	2.48	2.48
Of which vested:									
Number of stock options	60,000	-	-	325,000	90,000	130,000	65,000	133,333	108,333
Weighted average exercise price (in NIS)	21.57	-		22.14	30.64	34.44	22.16	30.67	34.47

Note 23 – Share-based Payment Transactions - continued

C. Stock option plan for employees

1. On May 19, 2008, the Bank's Board of Directors resolved, after obtaining approval of the Bank" Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for Bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries – as stated in the option plan and in the outline published on June 8, 2008 ("the outline"). No stock options will be granted, pursuant to the plan, to members of the Bank Board of Directors, including the Chairman of the Board, nor to the Bank President.

   The option plan is for a term of 5 years and 90 days, starting on the date of option allotment in accordance with the plan. In conjunction with approval of the plan, the Board of Directors resolved that the number of options to be used as a pool for allotment of options pursuant to the plan, would include 32,500,000 options, registered in the owner's name, not listed for trading on the Tel Aviv Stock Exchange, which would be granted at no cost to offerees, and which may be exercised for up to 32,500,000 Bank ordinary shares, NIS 0.1 par value each, subject to adjustments as specified in the plan, and subject to achieving the eligibility conditions stated there

   The options allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. The vesting period for each such lot will be at the end of each of the 1st, 2nd, 3rd, 4th and 5th anniversaries of the allotment date of options pursuant to the plan, respectively. The number of exercised shares, as stated, is the maximum number of shares arising from exercise of all options which may be allotted pursuant to the plan. However, the number of options which the offerees may actually exercise, pursuant to terms of the plan, will be based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 18% (under the original plan), based on the exercise eligibility formula, as set forth in the option plan.

   The personal eligibility rate for each offeree included in the group of branch-, department- and affiliate managers (as defined in the plan) to exercise the options granted to them in accordance with the plan will be determined, in addition to the aforementioned, also by the quality rating assigned to them, as set forth in the option plan.

   Furthermore, allotment of the full number of exercised shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of exercised shares arising from the options which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned options, as stated in the option plan.

   The exercise price for each of the options allotted pursuant to the plan was determined based on the closing price of the Bank's ordinary shares on the stock exchange on July 7, 2008 – the final trading day preceding the allotment date of options to the offeree. The exercise price is NIS 25.15 plus linkage differentials to the Consumer Price Index starting on the allotment date, adjusted for dividends to be distributed by the Bank.

Note 23 – Share-based Payment Transactions - continued

On July 8, 2008, 28,625,300 options were allotted, in accordance with the plan, at no cost to 313 offerees who are Bank officers, branch-, department- and affiliate managers, as well as other employees of the Bank and its subsidiaries, as stated in the option plan.

The options pursuant to the plan were allotted in accordance with terms of the work income track, via a trustee, pursuant to provisions of Section 102 of the Income Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued based there upon.

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee dated November 23, 2008, to extend the exercise periods of all options allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.

Accordingly, the exercise period for each lot of the options allotted or to be allotted pursuant to the option plan, including all options allotted on July 8, 2008, would be extended by 24 months, to end after 7 years and 90 days from the date of allotment, rather than after 5 years and 90 days from the date of allotment, as set forth in the original plan.

For recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as set forth above, management has estimated a range of annual rates of return (though not linear) for each plan year (2008-2012) up to an 18% annual rate of return in 2012. Using this range, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan has been estimated, as set forth in the framework.

On November 24, 2008, the Bank Board of Directors approved an updated strategic plan, whereby the Bank's objective is to achieve an annual rate of return of 18% in 2013, rather than in 2012, as set forth in the strategic plan prior to its update. Accordingly, management estimate with regard to the framework of annual rates of return has been updated for the purpose of recording this expense in the Bank's financial statements.

On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility formula for each of the stock option plans for VPs for lots vesting in 2011, 2012 and 2013, where the vesting eligibility would be determined based on annual rate of return in reported fiscal 2010, 2011 and 2012, respectively.

Note 23 – Share-based Payment Transactions - continued

In accordance with the updated formula, the offerees would be eligible to exercise in full the options in each lot, provided that the average net profit rate of return on equity would be 15%, compared to 18% in the original formula, all as set forth in the update to the stock option plan. For recording the expense on the Bank's financial statements, Bank management has estimated the trend of annual rates of return (though not linear) for each of the years 2010, 2011 and 2012. Using this trend, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan were re-estimated for lots vesting in 2011 through 2013. The update to the vesting eligibility formula, as well as management estimates with regard to the trend of annual rates of return, are arithmetical results of the Board of Directors' decision with regard to the capital adequacy target. Pursuant to this re-estimation, it is expected that the number of options exercisable by each offeree, as set forth above, would be similar to the number of options exercisable by each offeree based on previous estimates by management, and that the change would not materially impact the Bank's financial statements.

The theoretical benefit value of the options currently allotted, as set forth above, calculated in accordance with accounting standards, including adjustment of option value with respect to the change in option terms and the impact of change in number of options expected to vest, as of December 31, 2012 amounted to NIS 154 million (NIS 179 million including payroll tax); Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as set forth above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. Adjustment of the benefit value with respect to the change in option terms is the difference between the fair value of the options, under their original terms, upon the date of change in said terms, and their fair value under the new terms upon the same date. The theoretical benefit value is recorded on Bank accounts starting on the grant date and over a 5-year period. Management estimates with regard to the range of annual rates of return and churn rates are reviewed and updated on an on-going basis, and the extent of total expenditure recorded in the financial statements is updated accordingly.

Note 23 – Share-based Payment Transactions - continued

The theoretical benefit value of the options was determined using the Black and Scholes model. Standard deviation was separately calculated for each lot, based on daily share prices in a period equal to the expected life of each lot. The option term in the model was determined based on the average time between the vesting period and the option expiration date (Simplified Approach). The rate of risk-free interest is determined based on gross yield to maturity for CPI-linked government debentures bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on July 8, 2008, as of the grant date and as of the date of modification of terms:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
As of July 8, 2008 – the grant date					
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.10	3.60	4.10	4.60	5.10
Fair value per single option	5.25	5.79	6.13	6.45	6.95
As of November 24, 2008 – for the original exercise period (exercise price unchanged)					
Annualized standard deviation	29.84%	29.22%	28.76%	28.35%	27.43%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.08%	4.11%	4.13%	4.15%	4.16%
Term to exercise (in years)	2.75	3.25	3.75	4.25	4.75
Fair value per single option	1.17	1.43	1.69	1.94	2.12
As of November 24, 2008 – for the updated exercise period (exercise price unchanged)					
Annualized standard deviation	28.76%	28.35%	27.43%	26.77%	27.18%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.13%	4.15%	4.16%	4.18%	4.19%
Term to exercise (in years)	3.75	4.25	4.75	5.25	5.75
Fair value per single option	1.69	1.94	2.12	2.32	2.66
Value of change per single option	0.52	0.51	0.43	0.38	0.54
Cumulative value per single option	5.77	6.30	6.56	6.83	7.49

Note 23 – Share-based Payment Transactions - continued

On June 29, 2009, the Bank Board of Directors approved allotment of a further 2,263,700 options, under identical terms and conditions except for the exercise price, to two officers and 37 additional employees. The exercise price for each option allotted to offerees pursuant to the plan is NIS 23.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on June 28, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as set forth above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 12 million including payroll tax).

On November 9, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 1,085,432 options, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The exercise price for each option allotted to the four additional offerees pursuant to the plan is NIS 29.85, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as set forth above, the theoretical benefit value of the options amounted to NIS 6 million (NIS 7 million including payroll tax).

On October 26, 2010, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve a plan for allotment of a further 1,652,500 options, under identical terms and conditions with the exception of the exercise price, to 41 employees, including one officer of the Bank. Options would be allotted in 3 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1), second anniversary (lot 2) and third anniversary (lot 3) of the allotment date, subject to net profit rate of return on average equity for each year preceding each vesting date, as set forth above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 35.40, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank.

The exercise price was based on the closing price of Bank shares on the stock exchange on October 25, 2010, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Note 23 - Share-based Payment Transactions - continued

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as set forth above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 12 million including payroll tax).

On October 3, 2011, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve a plan for allotment of a further 701,300 options, under identical terms and conditions with the exception of the exercise price, to 31 employees, including one officer of the Bank. Options would be allotted in 2 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the allotment date, subject to net profit rate of return on average equity for each year preceding each vesting date, as set forth above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 31.62, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank.
The exercise price was based on the closing price of Bank shares on the stock exchange on October 2, 2011, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model.
The theoretical benefit value of the options in this allotment amounts to NIS 4.4 million (NIS 5 million including Payroll Tax).
The options were Allotted to employees on November 17, 2011.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 28, 2009, on November 9, 2009, on October 26, 2010 and on October 3, 2011:

Note 23 – Share-based Payment Transactions - continued

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved on June 29, 2009					
Number of options (in thousands)	566	566	566	566	2,264
Annualized standard deviation	34.27%	33.29%	32.65%	31.55%	
Exercise price (in NIS)	23.60	23.60	23.60	23.60	
Risk-free interest rate	0.91%	1.20%	1.50%	1.71%	
Term to exercise (in years)	3.70	4.20	4.70	5.20	
Fair value per single option	6.40	8.75	7.15	7.45	
Total fair value per lot, NIS in thousands	3,622	3,820	4,046	4,194	15,682
Allotment approved on November 9, 2009					
Number of options (in thousands)	248	279	279	279	1,085
Annualized standard deviation	34.88%	33.92%	33.15%	32.45%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.49%	0.68%	0.87%	1.05%	
Term to exercise (in years)	3.70	4.20	4.70	5.20	
Fair value per single option	8.05	8.43	8.82	9.21	
Total fair value per lot, NIS in thousands	2,000	2,352	2,461	2,569	9,382
Allotment approved on October 26, 2010					
Number of options (in thousands)	-	551	551	551	1,653
Annualized standard deviation	-	36.73%	35.07%	33.88%	
Exercise price (in NIS)	-	35.40	35.40	35.40	
Risk-free interest rate	-	0.22%	0.38%	0.53%	
Term to exercise (in years)	-	3.20	3.70	4.20	
Fair value per single option	-	9.23	9.55	9.92	
Total fair value per lot (NIS in thousands)	-	5,084	5,260	5,464	15,808
Allotment approved on October 3, 2011					
Number of options (in thousands)	-	-	351	351	702
Annualized standard deviation	-	-	31.93%	36.90%	
Exercise price (in NIS)	-	-	31.62	31.62	
Risk-free interest rate	-	-	1.07%	1.13%	
Term to exercise (in years)	-	-	2.71	3.21	
Fair value per single option	-	-	6.93	8.63	
Total fair value per lot (NIS in thousands)	-	-	1,700	2,783	4,483

Note 23 – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2015		2014		2013	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	1,549,740	29.93	2,163,977	30.11	9,260,886	28.22
Granted during the year	-	-	-	-	-	-
Expired during the year	91,167	33.61	-	-	-	-
Forfeited during the year	-	-	-	-	2,615,397	27.97
Exercised during the year(1)	1,236,132	28.38	614,237	30.42	4,481,512	27.83
Outstanding at year end	222,441	34.72	1,549,740	29.93	2,163,977	30.11

(1) The weighted average share price upon exercise of options into shares during 2015 was NIS 46.32 (2014 – NIS 45.47; 2013 - NIS 40.07).

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2015			December 31, 2014			December 31, 2013		
Range of exercise prices (in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	-	66,104	156,337	166,559	988,580	394,601	200,469	1,363,410	600,098
Weighted average exercise price (in NIS)	-	31.61	36.04	24.39	28.19	36.64	24.41	35.24	36.67
Weighted average remaining contractual term (in years)	-	0.13	0.18	0.98	0.87	1.18	1.98	2.44	2.18
Of which vested:									
Number of stock options	-	66,104	156,337	166,559	988,580	394,601	200,469	1,363,410	600,098
Weighted average exercise price (in NIS)	-	31.61	36.04	24.39	28.19	36.64	24.41	35.24	36.67

2. On April 29, 2013, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees who are employees of the Bank and its subsidiaries but who are not officers of the Bank. The option plan is based on the principles of the stock option plan for employees at the Bank.

The stock option plan is based on the format and principles of the employee stock option plans approved by the Bank in 2008 through 2011, whereby the Bank allocated options on July 8, 2008, on September 24, 2009, on December 5, 2010 and on November 17, 2011. Terms of the aforementioned options were listed in detail in outlines made public by the Bank, as amended. The stock option plan pursuant to this outline is intended for Bank employees other than officers and to employees of Bank subsidiaries. For details, see Note 23.D.1. to the financial statements.

The number of options which offerees may actually exercise, pursuant to plan terms and conditions, is derived from the average rate of net operating profit return on equity for the Bank, based on the formula for exercise eligibility - all as described and similar to plans approved in 2008 through 2011.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date. Subject to the average rate of net operating profit return on equity for the Bank, as described above. The exercise price for each option allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model.

The theoretical benefit value of the options in this allotment amounts to NIS 17 million (NIS 20 million including Payroll Tax).

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as set forth above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. The theoretical benefit value of the lot is recognized by the Bank over the vesting period.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

	Lot 1	Total
Allotment approved on April 29, 2013		
Number of options	5,901,340	
Annualized standard deviation	31.36%	
Exercise price (in NIS)	36.60	
Risk-free interest rate	(0.18%)	
Term to exercise (in years)	1.71	
Fair value per single option	5.894	
Total fair value per grant (NIS in thousands)	34,899	34,899

Note 23 – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2015		2014		2013	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	2,353,390	36.67	5,860,240	36.71	-	-
Awarded during the year(1)	-	-	-	-	5,901,340	36.71
Forfeited during the year	-	-	2,828,487	36.68	41,100	36.71
Exercised during the year(2)	2,353,390	36.44	678,363	36.71	-	-
Outstanding at year end	-	-	2,353,390	36.67	5,860,240	36.71

(1) The weighted average fair value of stock options granted in 2013, as of the measurement date, was NIS 5.54.

(2) The weighted average share price upon exercise of options into shares during 2015 was NIS 45.75 (2014 – NIS 44.49).

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2015			December 31, 2014			December 31, 2013		
(in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	-	-	-	-	-	2,353,390	-	-	5,860,240
Weighted average exercise price (in NIS)	-	-	-	-	-	36.67	-	-	36.71
Weighted average remaining contractual term (in years)	-	-	-	-	-	0.72	-	-	1.72
Of which vested:									
Number of stock options	-	-	-	-	-	2,353,390	-	-	-
Weighted average exercise price (in NIS)	-	-	-	-	-	36.67	-	-	-

3. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (for details see section C. above).

Note 23 – Share-based Payment Transactions - continued

On June 19, 2014, the Bank Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and subsidiaries thereof, pursuant to section 15B(1)(a) of the Securities Act, all as set forth in a report issued by the Bank on June 19, 2014, reference 2014-01-091176 (hereinafter: "the outline report").

As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

- Option plan A - up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B - up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C - up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D - up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E - up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms and conditions of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is but theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms and conditions of each plan - but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 80 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that the number of exercise shares for each plan is subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Note 23 – Share-based Payment Transactions - continued

The options to be issued in the name of the trustee for each officer, pursuant to option plans A or B, would be divided into three annual lots, one for each bonus year. The total number of options in each annual lot of options A, awarded to all officers who are not gatekeepers, is: 728,451 options for 2014; 689,523 options for 2015; and 665,223 options for 2016.

The total number of options in each annual lot of options B, awarded to all officers who are gatekeepers, is: 314,100 options for 2014; 284,136 options for 2015; and 274,830 options for 2016.

The options to be issued in the name of the trustee for each officer, pursuant to option plans C, D or E, would be divided into three equal annual lots, one for each bonus year. Each of the annual lots would vest in three equal portions as from April 1 of 2016-2020, as set forth in the outline report.

Each of the annual lots for options D and E would vest as follows:

– The adjusted annual lot for 2014 may be exercised from the first anniversary of the option issuance date through 4.5 years thereafter.
– The adjusted annual lot for 2015 may be exercised from the second anniversary of the option issuance date through 4.5 years thereafter.
– The adjusted annual lot for 2016 may be exercised from the third anniversary of the option issuance date through 4.5 years thereafter.

Threshold conditions and eligibility conditions for options

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

– Return on equity for the bonus year shall be at least 9%;
– Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").

Note 23 – Share-based Payment Transactions - continued

The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark.

Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

The exercise price for each option to be issued pursuant to any of the plans is NIS 46.21 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the outline report were taken into account.

Based on the aforementioned assumptions, as stated in the outline report, the average fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options A: options included in the first lot - NIS 7.69; options included in the second lot - NIS 8.13; options included in the third lot - NIS 8.43.
- Options B: options included in the first lot - NIS 7.73; options included in the second lot - NIS 8.16; options included in the third lot - NIS 8.44.
- Options C: options included in the first lot - NIS 7.64; options included in the second lot - NIS 8.06; options included in the third lot - NIS 8.35.
- Options D and E: options included in the first lot - NIS 8.42; options included in the second lot - NIS 8.17; options included in the third lot - NIS 7.64.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the wages tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 19, 2014, reference 2014-01-091176. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

On August 3, 2015, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve the outline of an offering to employees, whereby the Bank would allot 229,990 options to 19 offerees who are managers at the Bank.

The option plan is based on the principles of the stock option plan approved by the Bank in 2014, according to which the Bank allotted options to managers on June 19, 2014. See below.

The options were allotted as follows:

- Up to 11,494 options D to be awarded to up to one Bank officer who is employed by an individual employment contract, exercisable for up to 11,494 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan D dated June 19, 2014.
- Up to 218,496 options E to be awarded to up to eighteen managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 218,496 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan E dated June 19, 2014.

Note 23 – Share-based Payment Transactions - continued

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms and conditions of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is but theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms and conditions of each plan - but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 80 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that the number of exercise shares for each plan is subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.
The options issued in the name of the trustee for each officer, pursuant to option plans D or E, were divided into two equal annual lots, one for each bonus year. Each of the annual lots would vest on April 1 of each year between 2016-2020, as specified in the outline report.

Each of the annual lots for options D and E would vest as follows:

- The adjusted annual lot for 2015 may be exercised from the first anniversary of the option issuance date through 3.5 years thereafter.
- The adjusted annual lot for 2016 may be exercised from the second anniversary of the option issuance date through 3.5 years thereafter.

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:
- Return on equity for the bonus year shall be at least 9%;
- Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

In addition, eligibility conditions for options would be based on the following criteria:
- Eligibility of offerees who are not officers of the Bank to options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.7 of the outline report.

Note 23 – Share-based Payment Transactions - continued

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

The exercise price for each option to be issued pursuant to any of the plans is NIS 47.76 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the outline report were taken into account.

Based on the aforementioned assumptions, as stated in the outline report, the average fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

Options D and E: options included in the first lot - NIS 7.08; options included in the second lot - NIS 6.91.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 1.6 million (NIS 1.9 million including Payroll Tax). When spreading the theoretical benefit value in the Bank’s accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the wages tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 3, 2015, reference 2015-01-088305. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 23 – Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 19, 2014:

	Lot 1	Lot 2	Lot 3	Total
Option plan A				
Number of options (in thousands)	728	690	665	2,083
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.70	8.12	8.43	
Total fair value per lot, NIS in thousands	5,605	5,605	5,605	16,815
Option plan B				
Number of options (in thousands)	314	284	275	873
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.73	8.17	8.43	
Total fair value per lot, NIS in thousands	2,428	2,319	2,319	7,066

Note 23 – Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 19, 2014 (continued):

	Lot 1	Lot 2	Lot 3	Total
Option plan C				
Number of options (in thousands)	917	896	896	
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	2,709
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.64	8.06	8.35	
Total fair value per lot (NIS in thousands)	7,006	7,222	7,482	21,710
Option plan D				
Number of options (in thousands)	394	394	394	1,182
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.5	4.5	4.5	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	3317	3219	3010	9546
Option plan E				
Number of options (in thousands)	1,682	1,682	1,682	5,046
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.5	4.5	4.5	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	14,162	13,742	12,850	40,754

Note 23 – Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on August 3, 2015:

	Lot 1	Lot 2	Lot 3	Total
Option plan D				
Number of options (in thousands)	-	6	6	12
Annualized standard deviation	-	17.48%-21.01%	17.48%-22.92%	
Exercise price (in NIS)	-	47.76	47.76	
Risk-free interest rate	-	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	-	3.5	3.5	
Fair value per single option	-	7.08	6.91	
Total fair value per lot (NIS in thousands)	-	40	40	80
Option plan E				
Number of options (in thousands)	-	109	109	218
Annualized standard deviation	-	17.48%-21.01%	17.48%-22.92%	
Exercise price (in NIS)	-	47.76	47.76	
Risk-free interest rate	-	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	-	3.5	3.5	
Fair value per single option	-	7.08	6.91	
Total fair value per lot (NIS in thousands)	-	774	755	1,529

Details of the number of stock options and their exercise price for all plans are as follows:

	2015		2014	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	11,893,823	46.21	-	-
Granted during the year(1)	229,990	47.76	11,893,823	46.21
Forfeited during the year	1,699,397	46.21	-	-
Exercised during the year(2)	3,920	46.21	-	-
Outstanding at year end	10,420,496	46.24	11,893,823	46.21

(1) The weighted average fair value of stock options granted in 2015, as of the measurement date, was NIS 6.99. (in 2014 - NIS 8.06).

(2) The weighted average share price upon option exercise for shares exercised in 2015 was NIS 47.0.

Note 23 – Share-based Payment Transactions - continued

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range		December 31, 2015			December 31, 2014	
(in NIS)	26-32	33-39	40-50	26-32	33-39	40-50
Number of stock options	-	-	10,420,496	-	-	11,893,823
Weighted average exercise price (in NIS)	-	-	46.24	-	-	46.21
Weighted average remaining contractual term (in years)	-	-	3.51	-	-	3.88
Of which vested:						
Number of stock options	-	-	1,157,176	-	-	-
Weighted average exercise price (in NIS)	-	-	46.21	-	-	-

Note 24 - Share capital and shareholders' equity[1]

A. Details on share capital of the Bank (in NIS):

	Registered		Issued and paid-in[3]	
	December 31,		December 31,	
	2015	2014	2015	2014
Ordinary shares, NIS 0.1 par value[2]	40,000,000	40,000,000	23,438,032	23,321,941

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.
(3) Includes 2,500,000 dormant shares, acquired and held by the Bank. For details, see section D. below.

B. On April 3, 2006, the Bank's Board of Directors adopted a resolution on dividend distribution policies, whereby, provided that the Bank's capital ratio is not less than 10%, a dividend will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policies are in effect as from the year 2006.

On July 23, 2012, the Bank’s Board of Directors determined, in conjunction with approval of the new strategic five-year plan for 2013-2017, that during the plan term, the Bank's adopted dividend distribution policies would be maintained, subject to the Bank’s core capital ratio being no less than the target set by the Board of Directors.

On August 14, 2013, the Bank Board of Directors resolved to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions dated July 23, 2012, with regard to bringing forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014.

On December 23, 2014, in addition to the update to the Bank's strategic plan, the Bank’s Board of Directors approved a revised dividend distribution policy, whereby the Bank would distribute, with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015) a dividend of up to 15% of net profit attributable to equity holders.

The revised dividends policies are subject to the Bank’s maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

In 2017, the dividends policies would be as specified in section 1.C. of the previous Immediate Report. This is subject to the Bank's Tier I capital ratio being no less than the target required by the Supervisor of Banks' directives and subject to maintaining proper safety margins.

The Bank has received approval by the Supervisor of Banks for the aforementioned outline of its dividends policies.

Note that dividend distribution is subject to statutory provisions and to restrictions specified by the Supervisor of Banks.

Note 24 - Share Capital and Shareholders' Equity - continued

C. Information on dividend distribution limitations is provided below:

- According to the directives of the Supervisor of Banks with respect to a dividend distribution by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its adjusted shareholders' equity. As of December 31, 2014, the Bank's reported capital exceeds its non-monetary assets by NIS 7,371 million.
- The permit issued to the purchasers of the controlling interest by the Governor of the Bank of Israel stipulates that dividends will not be distributed out of profits accruing until September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.

  Furthermore, the Bank may not distribute dividends without prior consent of the Supervisor of Banks for such distribution, when:

  1. The Bank's retained earnings, net of negative differences included under Other Comprehensive Income, are not positive.
  2. One or more of the most recent three years ended in comprehensive loss.
  3. Cumulative results for the three quarters ending at the end of the interim period for which the most recent financial statements have been published - show a comprehensive loss.

D. On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute and to conditions set forth in the Supervisor's approval. On July 20, 2009 the Bank Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions set forth in the Supervisor's approval. On September 24, 2009, the Bank completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million.

The shares held by the Bank are designated to be provided as consideration for exercise of stock options under the stock option plan for VPs - for details see Note 23 to the financial statements. In accordance with the condition stated in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all options allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of options in accordance with the stock option plan.

In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as stated above. The Bank's Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria stipulated in the Companies Law and is compliant with terms and conditions specified in Proper Banking Conduct Directive No. 331. The Board of Directors has reexamined Bank compliance with distribution tests specified by the Companies Law, as well as compliance with conditions stated in Directive 331, immediately prior to these acquisitions.

Note 24 - Share Capital and Shareholders' Equity - continued

On January 30, 2013, the Bank of Israel allowed the Bank to use the excess shares for its 2013 stock option plan for managers who are not part of Bank management nor Bank officers. The Bank must sell the remaining excess shares (if any) immediately after the end of the exercise period of options pursuant to the stock option plan for managers who are not part of Bank management nor Bank officers, or pursuant to the original plan - whichever is later.

On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares.

On July 17, 2014, the Bank submitted the detailed buy-back plan by date, as requested by the Supervisor of Banks. The buy-back plan which was presented is in five stages, from the fourth quarter of 2015 to the fourth quarter of 2017, with restrictions for each buy-back lot and in total not to exceed 5 million shares. According to the plan, the Bank would sell any surplus shares after the end date for exercising all options under the stock option plan.

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set forth between the Bank and the Supervisor of Banks.

On August 13, 2014, the Bank's Board of Directors approved the aforementioned share buy-back outline. The buy-back plan, including execution thereof, shall be brought for approval by the Board of Directors, should it be put into action.

Buy-back of Bank shares is tantamount to a dividend distribution.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks

Reported amounts (NIS in millions)

A. Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Conduct of Banking Business Directive No. 201-211 "Measurement and Capital Adequacy"

	As of December 31	As of December 31
	2015	2014
1. Consolidated data		
A. Capital for purpose of calculating minimum capital ratio		
Tier I capital	12,299	11,273[(1)(2)]
Tier I capital	12,299	11,273
Tier II capital	4,916	4,883
Total capital	17,215	16,156
B. Weighted risk asset balances		
Credit risk	120,793	116,159[(1)(2)]
Market risk	950	1,020
Operational risk	7,743	7,383
Total weighted risk asset balances	129,486	124,562
C. Ratio of capital to risk elements		
Bank data:		
Ratio of Tier I capital to risk elements	9.50	9.05[(1)(2)]
Ratio of Tier I capital to risk elements	9.50	9.05[(1)(2)]
Ratio of total capital to risk elements	13.29	12.97[(1)(2)]
Minimum Tier I capital ratio required by Supervisor of Banks(3)	9.30	9.00
Total minimum capital ratio required by the Supervisor of Banks[(3)]	12.80	12.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and subsidiaries thereof		
Ratio of Tier I capital to risk elements	9.98	9.55[(2)]
Ratio of Tier I capital to risk elements	9.98	9.55[(2)]
Ratio of total capital to risk elements	13.23	13.65[(2)]
inimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	13.00	13.00

(1) Comparative figures for previous periods were restated. For information about retroactive application of the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.C.2 to the financial statements.

(2) Excluding the effect of adoption of US GAAP with regard to employee rights, which became effective on January 1, 2015. See Note 1.C.2 to the financial statements.

(3) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement is gradually implemented through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks, as of January 1, 2017, on consolidated basis, in conformity with data as of the current reporting date, are 9.8% and 13.3%, respectively.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

A. Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Conduct of Banking Business Directive No. 201-211 "Measurement and Capital Adequacy" - continued

	As of December 31	As of December 31
	2015	2014
3. Capital components for calculation of capital ratio (on consolidated basis)		
A. Tier I capital		
Shareholder equity	12,415	11,304[1]
Differences between shareholder equity and Tier 1 capital	(18)	62
Total Tier 1 equity before regulatory adjustments and deductions	12,397	11,366
Regulatory adjustments and deductions:		
Goodwill	(87)	(87)
Regulatory adjustments and other deductions - Tier 1 capital	(11)	(6)
Total regulatory adjustments and other deductions - Tier 1 capital	(98)	(93)
Total Tier 1 capital after regulatory adjustments and deductions	12,299	11,273
B. Tier II capital		
Tier II capital: Instruments, before deductions	3,544	3,573
Tier II capital: Provisions, before deductions	1,372	1,310
Total Tier 2 capital, before deductions	4,916	4,883
Deductions:		
Total deductions - Tier 2 capital	-	-
Total Tier II capital	4,916	4,883

4. Effect of transitional provisions on Tier 1 capital ratio (for details see section J. below):

	As of December 31	As of December 31
	2015	2014
Ratio of capital to risk elements		
Ratio of Tier I equity to risk elements before application of transitional provisions	9.32%	8.84[1][3]
Effect of transitional provisions	0.18%	0.21[1][3]
Ratio of Tier I equity to risk elements before application of transitional provisions	9.50%	9.05[1][2]

(1) Restated. For information about retroactive application of the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.C.2 to the financial statements.
(2) Excluding the effect of adoption of US GAAP with regard to employee rights, which became effective on January 1, 2015. See Note 1.C.1 to the financial statements.
(3) Including the effect of adoption of US GAAP with regard to employee rights. Comparative figures were restated to reflect this effect.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Conduct of Banking Business Directive No. 221 "Liquidity coverage ratio"

	As of December 31, 2015
	In %
1. Consolidated data[(1)]	
Liquidity coverage ratio	91
Minimum liquidity coverage ratio required by the Supervisor of Banks[(2)]	60
2. Bank data	
Liquidity coverage ratio	90
Minimum liquidity coverage ratio required by the Supervisor of Banks[(2)]	60
3. Significant subsidiaries	
Bank Yahav for Government Employees Ltd. and subsidiaries thereof	
Liquidity coverage ratio	382
Minimum liquidity coverage ratio required by the Supervisor of Banks[(2)]	60

(1) In terms of simple average of daily observations during the reported quarter. The liquidity coverage ratio as of December 31, 2015 was 96%.

(2) The minimum liquidity coverage ratio required by the Supervisor of Banks would gradually increase to 100% as of January 1, 2017.

C. Leverage ratio pursuant to directives of the Supervisor of Banks

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of December 31, 2015
1. Consolidated data	
Tier I capital	12,299
Total exposure	231,291
	In %
Leverage ratio	5.32
Minimum leverage ratio required by the Supervisor of Banks[(1)]	5.00
2. Significant subsidiaries	
Bank Yahav for Government Employees Ltd. and subsidiaries thereof	
Leverage ratio[(2)]	4.89
Minimum leverage ratio required by the Supervisor of Banks[(1)]	5.00

(1) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation.

(2) In order to bolster Bank Yahav's compliance with the leverage ratio outline, Bank Yahav realized its portfolio of debentures held to maturity.

Note 25 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

D. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policies for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

E. On October 25, 2010, the Bank's Board of Directors decided that the target core capital ratio would be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ratio shall be no less than the foregoing. The Bank's Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

F. On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017. The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank.

G. On July 23, 2012, the Bank's Board of Directors instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

H. On March 21, 2013, the Supervisor of Banks issued directives with regard to residential real estate. In conformity with the directives, capital allocation for loans originated as from January 1, 2013 is calculated using the following weighting:

For loans with LTV up to 45%	- 35% risk weighting
For loans with LTV from 45% to 60%	- 50% risk weighting
For loans with LTV over 60%	- 75% risk weighting
For leveraged loans with LTV ratio over 60% with	
A variable interest component of 25% or higher	- 75% risk weighting
This compares with the former weighting:	
For loans with LTV up to 75%	- 35% risk weighting
For loans with LTV over 75%	- 75% risk weighting

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

For leveraged loans with LTV ratio over 60% with
A variable interest component of 25% or higher - 100% risk weighting

In addition, the credit conversion factor for guarantees to secure investments of apartment buyers was reduced from 20% to 10% if the apartment has been delivered to the resident.

I. On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank would count as lower Tier II capital with regard to maintaining a minimum capital ratio.
Changes to conditions for recognition as lower Tier II capital, following implementation of Basel III directives, would retroactively apply to these notes.

J. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: "the directives").
The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.
The directives are effective as from January 1, 2014, subject to transitional provisions.

Below are the key amendments included in these directives:

- **Capital structure**
Supervisory capital would be composed of only two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.
The requirement for Tier III capital to cover market risk was eliminated.

- **Qualified capital instruments for Tier I additional capital and Tier II capital**
Qualification criteria were specified for capital instruments classified as Tier I additional capital and as Tier II capital. These instruments are to include a mechanism for absorbing losses of principal, whereby conversion into shares or principal reduction would take place when the Tier I equity ratio drops below 7% for Tier I additional capital instruments, or below 5% for Tier II capital instruments.

- **Non-controlling interest**
The amount of non-controlling interest recognized as capital would be limited, and excess equity of a subsidiary would not be recognized.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

- **Group provision for credit losses**

  The amount of the group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk.

  On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**
  - Deferred taxes due to temporary differences would be accounted for as follows:
    Up to 10% of Tier I equity - weighted at 250% risk weighting.
    Over 10% of Tier I equity - would be deducted from capital.
  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
  - The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.
  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.

- **Capital allocation with respect to CVA loss (Credit Value Adjustments) - loss due to revaluation at market value with respect to counter-party credit risk.**

  In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

  In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

  - Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
  - Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

  The amendment to Regulation 202 stipulates that the target date for compliance with the minimum 9% Tier I capital ratio for a non-large banking corporation is January 1, 2015 - in line with the Supervisor of Banks' letter dated March 28, 2012.

  The Bank is prepared to implement these directives and is reviewing their impact on the Bank's strategic plan.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

K. Following the publication of these directives, the Bank has revisited its compliance with the schedules for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing them, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

L. On August 29, 2013, the Supervisor of Banks issued directives with regard to "Restrictions on provision of housing loans". According to the directives, as from September 1, 2013 a bank may not approve nor originate housing loans where the ratio of monthly repayment to borrower income exceeds 50%.

Furthermore, loans with a ratio of monthly repayment to borrower income in excess of 40% will have a 100% risk weighting in calculation of capital allocation.

M. On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329, as well as a Q&A file on this issue. The circular consists of two amendments to the directive:

- Increase to the capital target – the target Tier I capital to risk elements ratio is to include an addition equal to 1% of the housing loan portfolio balance. The equity targets would be increased by fixed quarterly steps from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest – the risk weighting of leveraged loans bearing variable interest would be reduced from 100% to 75%.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Following implementation of this directive, the target ratio of Tier I capital to risk elements is expected to increase by 0.1%, according to data as of the reporting date, in each of the eight quarters as from the implementation date of this directive, for a total increase of 0.8% when implementation is complete. **This target may change based on actual data for the housing loan portfolio and for total risk assets.**

N. As from January 1, 2015, the Bank has adopted US GAAP with regard to employee rights.
In conformity with transition provisions specified in Proper Conduct of Banking Business Directive no. 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20% as from January 1, 2014, 40% as from January 1, 2015 and through to full application as from January 1, 2018.

O. On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.
The leverage ratio is reflected in percent, defined as the ratio of Tier I capital according to Basel rules to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.
According to the directive, banking corporations shall maintain a leverage ratio of 5% or higher on consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

P. On October 22, 2015, the Supervisor of Banks issued a circular concerning capital requirements with respect to exposure to central counter-parties (CCP). The circular includes an amendment to Proper Conduct of Banking Business Directive 203 with regard to capital measurement and adequacy, in conformity with directives of the Basel Committee on this matter.
The directive stipulates rules for treatment of exposure to clearinghouses, arising from trading of OTC derivatives, from transactions in negotiable derivatives and from transactions for financing securities.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Below are highlights of the amended directive:

- A central counter-party has been defined as a clearinghouse operating as a financial broker between counter-parties to contracts traded on a financial market.
- The trading exposure of a bank which is a member of the clearinghouse to a qualified central counter-party (QCCP) would be weighted at a risk weighting of 2% (compared to zero exposure currently). The trading exposure of a bank which is a member of the clearinghouse, that makes transfers to the clearinghouse's risk fund would be weighted in conformity with a formula specified in the directive.
- The trading exposure of a bank which is a member of the clearinghouse to clients active on a stock exchange in Israel would be calculated based on the calculation method for bi-lateral transactions (compared to current calculation according to rules of the stock exchange in Israel).
- The trading exposure of a bank acting through a member of the clearinghouse would carry a risk weighting of 2% or 4%, subject to compliance with business, operational and legal conditions specified in the directive.
- The trading exposure of a bank to a Non-Qualified Central Counter-Party would carry a risk weighting as applicable to that counter-party.

The effective start date of this directive is July 1, 2016.

Note that the directive allows the Tel Aviv Stock Exchange to be treated as a Qualified Central Counter-Party through June 30, 2017.

The Bank is preparing to implement these directives.

Q. On December 30, 2015, the Bank issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions, amounting to NIS 417 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss-absorption provisions if the Bank's Tier I equity should drop below 5% or in case of another event leading to dissolution of the Bank, in conformity with the Supervisor of Banks' decision.

In such case, the notes would be partially or completely written off.

Should the Tier I equity ratio exceed the minimum required ratio, the Bank may announce a principal write-off, in whole or in part.

In January 2016, after the balance sheet date, the Bank issued additional contingent subordinated notes amounting to NIS 183 million.

Note that according to the Bank's capital planning forecast, the issue of contingent subordinated notes should fulfill the Bank's need for supervisory capital at least through 2017.

Note 26 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end(1)

1. Balance of loans from deposits based on extent of collection[2]

	Consolidated	
	As of December 31	
	2015	2014
Israeli currency - linked to the CPI	4,965	7,673
Israeli currency - non-linked	3,242	2,861
Foreign currency	114	115
Total	8,321	10,649

2. Cash flows with respect to collection commissions on activities based on extent of collection[2]

	Consolidated							
	As of December 31							
	2015							2014
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
In the CPI-linked sector[3]								
Cash flows of futures contracts	41	80	70	90	25	2	308	454
Expected future cash flows net of management's estimate of early repayments	47	78	69	83	19	1	297	424
Discounted expected future flows net of management's estimate of early repayments[4]	41	75	64	74	15	1	270	399
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	3	1	-	-	-	-	4	3
Expected future cash flows net of management's estimate of early repayments	2	1	-	-	-	-	3	1
Discounted expected future flows net of management's estimate of early repayments[4]	1	-	-	-	-	-	1	1

Note 26 - Contingent Liabilities and Special Commitments - continued

As of December 31

Reported amounts (NIS in millions)

3 Information on loans extended by mortgage banks during the year

	Consolidated	
	2015	2014
Loans out of deposits according to extent of collection	65	107
Standing loans and grants	124	174

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).
(2) Standing loans and Government deposits given with respect there to totaling NIS 1,892 million (2014 - NIS 2,210 million) are not included in this table.
(3) Includes foreign currency sector.
(4) Discounted at the rate of 1.76% (2014 - 1.30%).

B. Other liabilities and special commitments

	Consolidated		The Bank	
	2015	2014	2015	2014
Obligations with respect to:				
Long-term leases(1)	730	659	581	527
Computerization and software service contracts	203	200	203	200
Acquisition and renovation of buildings	3	6	3	6
Receipt of deposits on future dates(2)	-	300	-	300

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

	Consolidated		The Bank	
	2015	2014	2015	2014
First year	62	63	44	44
Second year	60	59	42	42
Third year	52	52	37	35
Fourth year	50	47	36	35
Fifth year	47	44	34	34
Sixth year and thereafter	459	394	388	337
Total	730	659	581	527

(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set in advance on the contract date.

Note 26 - Contingent Liabilities and Special Commitments - continued

C. Contingent liabilities and other special commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 569 million as of December 31, 2015. The Bank's share of the fund as of December 31, 2015 is estimated at NIS 57 million (as of December 31, 2014 – NIS 70 million). The size of the risk fund is updated semi-annually based on the average daily total clearing volume - but no less than NIS 150 million. Each member's share in the risk fund will be determined by a ratio between the member's clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.
   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.
   See Note 27.A regarding liens that the Bank has undertaken to furnish for this liability. to the financial statements.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE ("MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.
   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 230 million (as of December 31, 2014 – NIS 363 million).
   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 1,387 million as of December 31, 2015. The Bank's share of the fund as of December 31, 2015 is estimated at NIS 125 million (as of December 31, 2014 – NIS 177 million).
   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.
   For information regarding charges that the Bank undertook to furnish with respect to these liabilities, see Note 27.B. to the financial statements.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange ("TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by that company.

Note 26 - Contingent Liabilities and Special Commitments - continued

4) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

5) In December 2001, a General Meeting of the Bank's shareholders ratified the granting a waiver in advance (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank waives in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the former's conduct, arising from their position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office, all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not Board members in conjunction with their action as Board member on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

   On October 28, 2004, the General Meeting of Bank shareholders resolved to add to the list of events for which the Bank granted a commitment to indemnify to its officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

Note 26 - Contingent Liabilities and Special Commitments - continued

On May 14, 2006, the General Meeting of Bank shareholders resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as Board member on a company in which the Bank owns some shares, and to those serving, from time to time at the Bank's request, as Board member on a company controlled by the Bank.

On November 9, 2011, the General Meeting of Bank shareholders resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 - resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

The General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Assembly of Bank shareholders also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholders equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the Restrictive Trade Practices Act, 1988.

The General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly of Bank shareholders resolved to reduce the liability waiver for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly of Bank shareholders, when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer who received the waiver) has a personal interest.

The General Assembly of Bank shareholders also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly of Bank shareholders further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses - provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

6) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator’s decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

Note 26 - Contingent Liabilities and Special Commitments - continued

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately - NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately - will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately - will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot ("Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

   The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

   Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

Note 26 - Contingent Liabilities and Special Commitments - continued

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholders' equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general Assembly of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

   Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

   Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

   Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

Note 26 - Contingent Liabilities and Special Commitments - continued

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking (“indemnification letter”) for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting (“date of record”) serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholders’ equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 (“total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers’ insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim was one of the insured parties in the officers’ insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to equity holders of the Bank:

Note 26 - Contingent Liabilities and Special Commitments - continued

A. 1) In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim). The plaintiffs claim that banks are in breach of restrictive trade practices statutes, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

2) In May 2009, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendant banks").

The claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009 headed "Re: restrictive trade practices existed between the Bank and Bank HA-POALIM Ltd., Bank LEUMI LE-ISRAEL Ltd., Bank Discount LE-ISRAEL Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing". The claim alleges, based on the determination by the Supervisor, that the defendant banks were party to a restrictive trade practice, which affected competition and caused coordination of commissions, such that the plaintiffs paid excessive prices for services rendered to them.

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation so as to place the issue under the material jurisdiction of the District Court.

In November 2009, at the Bank's request, the Court handed down its decision, whereby legal proceedings with regard to the two aforementioned lawsuits would currently be put on hold for at least two years.

In February 2012, the Court decided that hearing of these two claims would be delayed pending a resolution by the Anti-Trust Court of an appeal filed by the Bank of the decision by the Anti-Trust Supervisor, whereby the Bank was party to a restrictive trade practice concerning transfer of information with regard to commissions applicable to households and small businesses.

The parties to these claims were in settlement negotiations and on November 16, 2014 the parties filed with the Court an agreed motion for approval of the settlement agreement. The Court has ordered the settlement agreement to be made public and requested the position of the Government's Legal Counsel. On April 15, 2015, the position of the Attorney General was filed and on April 16, 2015, the Court held a hearing of the motion for approval of the settlement agreement and set schedules for providing responses by the parties to issues arising from the position of the Attorney General.

On May 31, 2015, after receiving the aforementioned responses, the Court issued a verdict which confirmed the settlement agreement.

Note 26 - Contingent Liabilities and Special Commitments - continued

B. In November 2009, the Bank received a claim of NIS 804 million filed, by way of originating motion, with the Central District Court in PETACH TIKVA, against the Bank, Bank HA-POALIM, BANK LEUMI, First International Bank of Israel, Discount Bank, Mercantile Discount Bank and BANK IGUD (hereinafter: "the defendant banks"). The background for this claim is a loan obtained by the plaintiffs from the banks in 1999 for purchase of shares (of which the Bank's share was 10%), with the plaintiffs pledging their shares to the banks to secure the loan. Since the plaintiffs were unable to repay their debt, a receiver was appointed for the shares at the request of the defendant banks.

The plaintiffs claim that once a receiver was appointed for the shares, these shares were no longer under their control, and although the decision concerning the sale date of the shares was in the hands of the defendant banks and of the receiver, the defendant banks continued to charge, allegedly un-lawfully, "arrears interest" to the plaintiffs throughout the receivership period, with respect to the arrears in loan repayment, which over the years amounted, according to the claim, to the total claim amount.

In January 2010, the Court decision was handed down, whereby the lawsuit would be referred for resolution in the course of a regular claim for monetary remedy, and the Court fee with respect there to would be paid by the plaintiffs. Accordingly, the plaintiffs filed in February 2010 a statement of claim in the amount of NIS 829 million.

In March 2010, the defendants, including the Bank, filed their statements of defense.

Evidence in this case was heard between March 2011 and April 2012, and the parties have filed their summations.

After hearing the evidence, a partial verdict was handed down in July 2013 against the defendant banks and in November 2013, the Court handed down a complementary verdict, requiring the defendants to pay to the plaintiffs the amount of NIS 48.5 million plus interest and linkage differentials since November 9, 2009, reimbursement of fees amounting to NIS 0.5 million and legal fees amounting to NIS 4.2 million. According to the opinion of Legal Counsel, the Bank's share is the same as its share of financing (10%).

The banks have appealed the verdict to the Supreme Court and also filed a motion for a stay of execution of this verdict. The plaintiffs also appealed the verdict. The parties have reached agreement with regard to a stay of execution.

In early October 2014, the summation filing stage with the Supreme Court ended and on August 23, 2015, the Supreme Court issued a verdict which rejected the banks' appeal and partially accepted the plaintiff's appeal. The banks filed a motion for a stay of execution of this verdict and a motion for another hearing to be held; the motion for a stay of execution was rejected and the banks paid the amount specified in the verdict. On October 12, 2015, the Supreme Court rejected the banks' motion for another hearing to be held.

Note 26 - Contingent Liabilities and Special Commitments - continued

C. In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank - firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount.

The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process is concurrently on-going with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. At a preliminary hearing on January 11, 2016, the Court referred the parties to arbitration in order to resolve this disagreement - but the arbitration was unsuccessful. Evidentiary hearings are scheduled for March 2016.

D. In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process is concurrently on-going with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. At a preliminary hearing on January 11, 2016, the Court referred the parties to arbitration in order to resolve this disagreement - but the arbitration was unsuccessful. Evidentiary hearings are scheduled for March 2016.

E. In September 2011, a claim and motion for class action status was filed with the Central District Court against the Bank, Bank Leumi LeIsrael Ltd. and Bank HaPoalim Ltd., for alleged unlawful charging of compounded interest, in contravention of statutes and agreements, on housing loans - including targeted loans, eligibility loans and additional loans, excluding standing loans. The total claim amount against the banks was NIS 927 million. The Bank's share of this claim amounts to NIS 364 million.

In May 2012, the Bank filed its response to this claim, claiming that it was unfounded, that the Bank acted in accordance with statutory provisions and did not charge any compounded interest in the manner in which banks in general and the Bank, in particular, acted.

The position of the Supervisor of Banks, which supports the banks' position, was also filed in this case.

In July 2013, an evidentiary hearing took place and the experts on behalf of the parties were questioned.

The plaintiffs filed their summation. In September 2014, the Bank filed its summation and in December 2014, the plaintiffs filed their summary responses.

On August 16, 2015 a verdict was handed down, rejecting the motion for class action status and on December 7, 2015, the parties appealed the verdict to the Supreme Court.

F. In October 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, against the five large banks - including the Bank - alleging failure to match the client debt amount on Bank accounts and the debt amount indicated in Court Order Execution Service files. The plaintiffs indicate that the claim amount cannot be estimated at this stage.

In March 2014, the Bank filed its response to the motion and in April 2014, the plaintiff filed their response to the Bank's response.

In its resolution dated September 14, 2014, the Court forwarded the issues raised by the motion to the Supervisor of Banks and the Attorney General for their opinions.

On February 1, 2015, the Attorney General filed their position (on behalf of the Enforcement and Collection Authority and on behalf of the Bank of Israel) and on March 26, 2015 the banks filed their response to the position of the Attorney General. The plaintiffs' response to the aforementioned response by the banks was filed on April 1, 2015.

A preliminary hearing took place on April 19, 2015 and as resolved by the Court, a further hearing took place on June 21, 2015, attended by representatives of the Enforcement and Collection Authority, in which the Court ordered, *inter alia*, that the Enforcement and Collection Authority should file its revised position - which was filed on October 8, 2015. On December 20, 2015, the banks filed their response to the revised position by the Attorney General and also filed a motion to allow them to file a third-party notice against the Enforcement and Collection Authority. The Attorney General has yet to file a response to this motion. On December 30, 2015, a pre-trial hearing took place and a further hearing is scheduled for May 3, 2016.

G. In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as set forth in sections C. and D. above.

As noted above, the parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. On January 4, 2016, the Court decided that this motion would be heard together with the other motions and the deadline for filing the Bank's response was postponed to end of March 2016.

H. 1) In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President & CEO, personally - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.

In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.

A revised claim filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.

Note 26 - Contingent Liabilities and Special Commitments - continued

In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Igud LeIsrael and Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).

A motion has been filed to combine heating of this claim with the first aforementioned claim and the Court has agreed to said motion and has combined both claims.

On December 23, 2014. the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.

On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.

On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.

On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks and scheduled evidentiary hearings for March 2016.

2) In August 2014, a claim and motion for class action status were filed with the Tel Aviv District Court in the amount of NIS 1.5 billion against the 5 major banks, including the Bank, as well as against Bank Otzar HaChayal and Mercantile Discount Bank. The plaintiff is one of the plaintiffs who filed the claim and motion listed in section H. 1. above.

   The claim concerns a matter similar to the one discussed in section H.1 above. The claim also alleges that the Bank unlawfully charges a variable minimum fee for foreign currency transfers.

   The Bank has filed its response to the motion for class action status and the plaintiff has filed their response there to. The plaintiff has also filed a motion to combine the hearing of this claim with that of the two claims above - a decision on this matter is still pending.

   On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.

   On April 23, 2015, the plaintiff filed, in conformity with the Court decision, a summary motion for approval of class action status, in which the plaintiff stated that, at this stage, it set the total claim amount (against all defendants) at only NIS 10 million, while reserving the right to increase this amount.

Note 26 - Contingent Liabilities and Special Commitments - continued

On August 25, 2015, before the banks filed their responses, a verdict was issued, ordering the motion for class action status to be erased.

I. In March 2014, a claim and motion for class action status were filed with the Central District Court against the Bank, alleging unlawful charging of warning letter commission and excessive interest charged for exceeding the authorized limit on accounts, allegedly in breach of Proper Banking Conduct Directive 325 concerning "management of credit facility in checking account". The plaintiffs claim that this directive is breached, *inter alia*, by the Bank allowing charges to clients which the Bank could and should have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.

The plaintiff claimed to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

The Bank filed its response to the motion in October 2014. On March 10, 2015, the plaintiff filed their response to the Bank's response to the motion. A common pre-trial hearing for the three motions filed against the Bank, Bank Leumi and Discount Bank - against which claims were filed citing similar causes - took place on March 26, 2015. On November 2, the Bank filed its motion to reject parts of the plaintiff's response to the Bank's response. The plaintiff has yet to file its response. Another pre-trial hearing is scheduled on April 18, 2016.

J. In August 2014, a counter-claim was filed with the Supreme Court in New York by a plaintiff who is subject to debt collection proceedings concerning his guarantee to secure credit obtained by a company controlled there by. The plaintiff claims they have sustained damage in excess of USD 57 million due to a breach of verbal commitment made by the Bank to the plaintiff not to enforce his personal guarantee. The plaintiff claims that deeds and omissions by the Bank have resulted in failure to meet his various obligations and in destruction of his business. In March 2015, the Bank filed a motion to dismiss. The plaintiff filed its response in May 2015. On July 10, 2015, the Bank filed its response to the plaintiff's claim and to the motion to dismiss.

On July 31, 2015, a hearing of the motion to dismiss took place. On December 14, the Court rejected the plaintiff's claim with regard to alleged Bank omissions - but left in place the cause of claim with regard to verbal termination of their guarantee.

The Bank filed its response to the plaintiff's claim on February 11, 2016.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 11 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 171 million.

Note 26 - Contingent Liabilities and Special Commitments - continued

11) Motions for class action status are pending against the Bank and subsidiaries thereof, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, hence no provision was made for these.

A. In March 2015, a counter-claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over-charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), 2008. The plaintiff alleges that the breach was due, *inter alia*, to the Bank charging holders of "individual" or "small business" account commissions for certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

According to a Court resolution dated September 10, the Bank of Israel should file its position by December 15, 2015. On December 16, 2015, another pre-trial hearing took place - at which the parties were urged to negotiate a potential settlement agreement. A pre-trial hearing is scheduled for March 29, 2016.

B. In March 2015, a claim and motion for class action status was filed with the District Court in Tel Aviv against the Bank, its President, Board members and controlling shareholders, with regard to damage allegedly caused to the plaintiff and to class members due to the alleged breach of mandatory disclosure of material information to investors.

The plaintiff alleges that the defendants have allegedly acted in contravention of the Securities Law, 1968 and relevant regulations, by failing to disclose on the Bank's financial statements that a provision has been made with respect to an investigation against the Bank in the USA, the nature and amounts of such provisions and the fact that the Supervisor of Banks has required the Bank to make provisions on the Bank's financial statements with regard to exposure to investigation by authorities in the USA.

The plaintiff claims that - due to the requirement by the Supervisor of Banks - the Bank made provisions amounting to tens of millions of NIS on its financial statements for the second and third quarters of 2014, classified under "Other expenses".

The plaintiff claims that, based on information in the aforementioned financial statements, tens of thousands of investors have bought Bank shares without having the aforementioned material information. The plaintiff also claims that the price at which class members purchased those Bank shares was higher than the price they would have paid for the shares, had the proper disclosure been made.

No specific amount was specified in the statement of claim. However, the plaintiff referred to the mechanism for calculation of damage whereby, on the date when the alleged deception was made public, the Bank share under-performed the Bank Share Index by 2.19% (excluding Bank HaPoalim and Bank Mizrahi Tefahot).

The plaintiff wishes to specify, in conformity with the Class Action Lawsuit Act, that the lawsuit would be filed on behalf of "anyone who bought shares of Bank Mizrahi-Tefahot Ltd. from the publication date of the financial statements for the second quarter of 2014 (August 13, 2014) and held the shares on February 26, 2015".
The Bank and other respondents filed their response to the motion on November 19, 2015.

On February 3, the Court ordered disclosure of documents, including correspondence between the Bank and the Supervisor of Banks and/or ISA, with regard to the inquiry by the US DOJ and/or with regard to provisions recorded by the Bank with respect to said inquiry - and instructed the Bank to provide these documents to the plaintiffs. The decision was given following the plaintiff's motion to attach documents to the claims and, alternatively, to disclose them. On February 16, 2016, the Bank filed a notice and motion with regard to disclosing the content of documents and/or correspondence for reasons of privilege and lack of relevance. The plaintiff should respond to the Bank's motion within 14 days.

The preliminary hearing of the motion was rescheduled for March 21, 2016.

See also section 12 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

C. In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the **motion**") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("**Mizrahi Switzerland**") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to said proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by said shareholder in December 2014 with the Tel Aviv District Court against the Bank and officers thereof, pursuant to provisions of Section 198a of the Corporate Act, 1999 ("the **motion for discovery**"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval - which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject there to, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA.

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed.

See also section 12 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

D. In October 2015, a claim was filed with the Central Region District Court, along with a motion for class action status, in the amount of NIS 141.4 million, for charging a fee for "Non-recurring foreign currency transfer to / from overseas". The plaintiff claims that the Bank charges this fee for a non-recurring foreign currency transfer to / from overseas, denominated in USD, in NIS - in contravention of the price list, using the Bank's "Buy/Sell" rate with alleged deception with regard to the cost of the service and the fee amount and in breach of mandatory disclosure. The Bank has yet to file its response.

Note 26 - Contingent Liabilities and Special Commitments - continued

E. In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Igud LeIsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population - in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.
The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.
The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share - as is their share in compensation to class members.

F. In February 2016, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendants"). The plaintiff set the claim amount for all defendant Banks, jointly and severally, at NIS 219 million. The motion concerns alleged discrimination in providing service to student groups by age, allegedly in violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000 (hereinafter: "the Non-Discrimination Act") and the Banking Act (Customer Service), 1981 (hereinafter: "the Banking Act").
According to the plaintiffs, this is a general policy of all defendants, which seeks to exclude the "non-young" population from student benefit plans and/or from being able to open an account with the terms and conditions of a student account, by setting an age cap for receiving student benefits.
The plaintiff asks, in conformity with the Class Actions Law, for the claim to be filed on behalf of all students discriminated against due to their age, by comparison to younger students, who were precluded from receiving student benefits from the defendants in the past seven years (for causes pursuant to the Banking Act (Customer Service), 1981 or as from July 15, 2014 (pursuant to the amendment to the Non-Discrimination Act).

G. A claim and motion for class action status was filed against Bank Yahav, alleging that Bank Yahav charged individual clients (and small businesses) commissions whose amount and rate exceed the allowed maximum, specified in the price list for non-small businesses. This claim does not specify an estimated claim amount.

Note 26 - Contingent Liabilities and Special Commitments - continued

12) During 2011, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided, as from September 2011, to Swiss authorities quantitative data as requested about their business with US clients, to be provided to US authorities.

In a letter dated August 2013, Mizrahi Bank Switzerland was informed by the US Department of Justice that an investigation of its business has been launched. The letter did not indicate the suspicions which led to the launch of this investigation. This notice means that Mizrahi Bank Switzerland is not in Category 2, which qualifies for a non-prosecution agreement pursuant to the US DOJ program for Swiss banks ("the Swiss program"). The financial implications of the Swiss program for Category 2 banks are determined based on the amount of assets held by US citizens and residents and the dates of such holdings. Although the Swiss program does not apply to Mizrahi Bank Switzerland due to the aforementioned letter, the bank has expressed its willingness to cooperate with and to assist the US Department of Justice in conformity with the Swiss program and has provided the requested quantitative data, as noted.

In addition to the foregoing, in August 2013 the Bank was informed that the US DOJ continued to review loans extended to clients by the Los Angeles branch against collateral provided in the form of monetary deposits in Israel. Thereafter, the Bank has provided to the US DOJ quantitative data about such back-to-back transactions.

On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding it produce documents related to a Bank employee and to a Bank employee who retired five years ago, as well as to banking services provided at the Los Angeles branch, provided that such documents are available at the Bank branch in Los Angeles. The Los Angeles branch has acted to provide the required documents.

On April 30, 2014, an indictment was filed with the Court in Los Angeles against the Bank employee in Los Angeles who has retired; the indictment alleges , *inter alia*, that the employee aided US clients of the Bank to avoid tax payment. The Bank is not named on the indictment, no violation is attributed to the Bank, referred to exclusively as "Bank A of Tel Aviv". On September 19, 2014, the Bank was required by US DOJ to provide documents and quantitative information with regard to this indictment. On October 31, 2014, the retired Bank employee was acquitted by a jury of all charges.

In June 2014, the Bank was first informed of expansion of the US DOJ investigation, which would apply to all cross border activities of the Bank Group with its US clients, including the aforementioned back-to-back transactions.

Note 26 - Contingent Liabilities and Special Commitments - continued

In a letter dated July 25, 2014, the US DOJ required the Bank to provide data and information with regard to a wide range of issues concerning cross border transactions with US clients of the Bank Group, including quantitative data with regard to accounts of US clients for the period from January 1, 2002 to the letter date ("the effective period"); internal and external communications by electronic messages; operations and marketing, compliance, employee training, remuneration, policy documents and procedures; internal audit and external audit reports with regard to Bank Group operations with its US clients and a long list of other documents and data as listed in the aforementioned letter.

In order to collate the information and date thus required by the US DOJ, the Bank engaged, in August 2014, the services of external experts for data research and validation and the services of legal counsel in the USA, who joined the Bank Group's team of legal counsel (in Israel and in the USA) and in the first quarter of 2015, this team was expanded with additional legal counsel.

In a letter dated November 25, 2014 to the US Department of Justice, the advisors handling this issue on behalf of the Bank together with the external experts, provided a preliminary detailed description of the mapping process of available computer-based information at the Bank Group (in Israel, Switzerland, London and Los Angeles) with regard to accounts of US clients and of electronic messages - in response to the information and data required by the US DOJ with regard to Bank Group business with its US clients in both quantitative and qualitative aspects. The advisors' preliminary response to the letter dated July 25 was based on visits to various Bank Group sites and on discussions with Bank Group officers, in order to assess the scope and complexity of the information and data required by the US DOJ.

In the aforementioned letter, the external experts estimated the schedules required for review of computer-based information with regard to the Bank Group's US clients, for analysis of this information based on specified criteria and for validation of their findings. According to the preliminary estimate provided by the external experts, the required quantitative data should have been ready for delivery to the US DOJ by April 30, 2015, subject to conditions, assumptions and reservations listed by these experts.

In December 2014, agreements signed with an Israeli bank subject to an investigation were made public - including a Deferred Prosecution Agreement with the US DOJ. The aforementioned report also noted that a banking subsidiary of said bank in Switzerland was made subject to the Swiss program. The Bank maintains that the conduct of other banks, the structure of their inter-state operations and individual agreements by those banks should not be used in comparison to the Bank Group, including with regard to a potential arrangement between the Bank Group and the US DOJ.

Note 26 - Contingent Liabilities and Special Commitments - continued

Nevertheless, the Supervisor of Banks, after reviewing the circumstances and for reasons of accounting conservatism, directed the Bank to accrue a provision with respect to issues related to the aforementioned events and later on instructed the Bank to disclose the same on its 2014 annual report. Consequently, while the Bank Group fully retains its rights and claims, the Bank's 2014 financial statements include a provision amounting to NIS 95 million, estimated based on a calculation founded on a theoretical assumption, as directed by the Supervisor of Banks, whereby Mizrahi Bank Switzerland would be included in the Swiss program, although the bank was informed that this program does not apply there to and based on the Bank's understanding of the implications of the Swiss program.

In conformity with ISA requirement, a Note to the 2014 annual financial statements includes additional detailed explanations as well as details of provisions made in 2014, although the Bank maintains that these provision amounts are not material, as follows: In the second quarter of 2014 - NIS 35 million; in the third quarter of 2014 - NIS 5 million and in the fourth quarter of 2014 - NIS 55 million - for a total of NIS 95 million in all of 2014.

On July 1, 2015, the external experts informed the US DOJ with regard to the schedules required for review of computer-based information with regard to the Bank Group's US clients, for analysis of this information based on specified criteria and for validation of their findings. Their current assessment was that the quantitative information required (beyond quantitative data already provided to the US DOJ, as noted above) would be provided to the US DOJ by March 15, 2016, subject to conditions, assumptions and caveats listed there by.

In 2015, the Bank continued to intensively create a computer-based information repository to include the quantitative information about US clients, as required by the US DOJ. This repository is now complete and validation by external experts of data in this repository is nearly complete. With regard to quantitative data concerning the Bank branch in Los Angeles and Mizrahi Switzerland Bank - this validation has been completed and this data has been provided to the US DOJ.

Other than the content of the letter dated July 25, 2014, the US DOJ, in another letter dated November 4, 2015, gave instructions designed to clarify, focus the required documents and data in conjunction with the Bank Group's co-operation with regard to the investigation concerning its business with its US clients.

In December 2015, the US DOJ requested additional quantitative information about accounts of the Bank's US clients. Consequently to this request, the parties agreed that this information would be provided by May 31, 2016.

On February 8, 2016, the Bank provided to the US DOJ the requested quantitative information with regard to closed accounts of US clients at Bank branches in Israel.

Mizrahi Bank Switzerland and the Bank are in constant contact with the US DOJ to reach a comprehensive outline for the entire Bank Group with regard to this investigation.

The Bank regularly reports these events to the Supervisor of Banks and Mizrahi Bank Switzerland reports these to the Swiss supervisory authorities.

As noted in previous reports, the US DOJ has confirmed in principle its willingness to reach an overall arrangement outline for the Bank Group with regard to the inquiry. However, at this stage there are no negotiations taking place with the US DOJ with regard to the inquiry or to its implications in terms of any arrangement and in terms of any monetary implications for the Bank Group, if any, of such an arrangement when formulated.

According to the opinion of the Bank's legal counsel, in view of data in the computer-based repository which is now complete, as noted above, and validation of the data therein is about to be completed and considering arrangements made by the US DOJ with other banks with regard to investigations concerning un-disclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position about these data not prevail. Based on the aforementioned opinion, the provision amount with respect to this inquiry is USD 36 million (NIS 141 million).

Note that the Bank's legal counsel have expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, *inter alia*, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

Because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, it may transpire in future that the realized loss significantly exceeds the provision made to date.

13) On November 18, 2008, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand (hereinafter: "the cards"), to be distributed by the Bank to its clients. The agreement sets forth the parties' rights as well as operating arrangements and service provision by CAL Group for the cards, as well as all other terms and conditions related there to.
In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted.
The agreement expired on November 18, 2013 and the Bank did not exercise any options during this period.
On March 2, 2014, the Bank and CAL Group signed an agreement revising the joint issuance agreement. The revised agreement is effective for a 5-year term from its signing date.

Note 26 - Contingent Liabilities and Special Commitments - continued

This agreement updated the operating and marketing arrangements for the cards, as well as remuneration of the parties.

The agreement is subject to all regulatory requirements required by statute, if any.

The signed agreement has no material impact on the Group's financial statements.

14) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

15) In a labor agreement signed between the Bank and its employee representatives on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection, which bear specified interest and are CPI-linked. It was agreed that if, on the maturity date of each of the aforementioned loans, it becomes clear that the linkage differentials and the interest accrued exceed the yield accumulated in an agreed provident fund, they would be reduced accordingly. The tax effects, if any, related to this reduction will devolve on the Bank. When such a difference is created, an appropriate provision is made.

At the balance sheet date, the balances of these loans amount to NIS 13 million.

16) The Bank has undertaken vis-à-vis the trustee for debentures and subordinated notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes.

17) The Bank has committed to borrowers in certain savings plans who would borrow from the Bank, to the following fixed terms(1):

	December 31,	
	2015	2014
0.25% less than the interest prevailing at the time the loan was issued	766	960

(1) The commitment may be utilized only if certain conditions stipulated in the savings plans are met. Granting of credit is subject at all times to the Bank's exclusive discretion, in accordance with procedures set forth by the Bank, with due consideration to client attributes and subject to review of the actual client application for credit to be granted by the Bank.

18) As from July 1, 2004, a two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after said date. This agreement has been continuously extended each year, most recently through June 30, 2015.

Note 26 - Contingent Liabilities and Special Commitments - continued

In May 2008, another agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed annually, unless any of the parties gives notice of their wish to terminate the agreement), whereby loans to eligible borrowers with low point rating are provided out of Bank funds and at Bank risk. The interest on these loans is determined based on interest for special assistance loans out of Ministry of Finance funds. Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For loans granted to certain eligible borrowers, the Ministry of Finance pays the banks which grant loans out of Bank funds the difference between the actual interest rate charged and the average interest rate published by the Bank of Israel, plus spread. Concurrently with loan origination, as stated above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the Group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

The agreement for provision of assistance to eligible borrowers out of Bank funds, signed in 2008, has been extended through April 30, 2015.

Group revenues from all loans to eligible borrowers under State responsibility in 2015 amounted to NIS 51 million, compared to NIS 56 million in 2014.

On January 1, 2015, the Bank joined the fast track process to refinance directed loans, as initiated by the Bank of Israel and the Ministry of Construction and Housing. According to a circular issued by the Bank of Israel (Bank-Client Division), this campaign, started on January 1, 2015, was designed to allow eligible borrowers who took out a loan out of Government funds to improve the terms of their loans in the NIS, CPI-linked track. The change in terms was made in a fast-track process at a low cost and the loans were provided out of Bank funds in the CPI-linked track bearing fixed interest for the remainder of the loan term. According to this circular, loans provided by the Bank as part of this campaign are exempt from group-based provision at 0.35%, as specified in Proper Banking Conduct Directive 329. The risk weighting of these loans is a reduced risk weighting with regard to capital adequacy. The circular also included further concessions to encourage borrowers to join this campaign. The campaign ended on December 31, 2015.

19) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.

Note 27 - Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 26.C.1).

   In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

   1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government debentures of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank’s share in the risk fund. As of December 31, 2015 - NIS 53 million were deposited. (As of December 31, 2014 - NIS 42 million).
   2) Additionally, in the account opened by the stock exchange clearinghouse in its name for the Bank in another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2015, deposits to this account amounted to NIS 15 million (as of December 31, 2014 - NIS 32 million).
   3) The accounts discussed in Par. 1 and 2 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 26.C.2).

   Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

   1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank’s share in the risks fund. The value of debentures deposited as of December 31, 2015 is NIS 440 million (as of December 31, 2014 – NIS 1,272 million).

Note 27 – Liens - continued

2) Additionally, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2015, deposits to this account amounted to NIS 48 million (as of December 31, 2014 - similar).
3) The aforementioned accounts in sections 1-2 are pledged under a floating and fixed lien to benefit the MAOF clearinghouse.

C. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) - a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.
The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2015 and as of December 31, 2014, no debentures were deposited in this account.

D. The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2015, at USD 10 million (as of December 31, 2014 – USD 9 million).

E. In accordance with the requirement of the regulatory agencies in the U.S., the Bank's branch there pledged securities worth USD 14 million as of the balance sheet date (as of December 31, 2014– similar), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives. Most of the amount pledged, which as of December 31, 2015 amounted to USD 11 million (as of December 31, 2014 – USD 10 million), relates to a demand by U.S. regulatory agencies to secure 7.5% of the branch's liabilities, as defined by the authorities there.

F. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2015 and December 31, 2014, the Bank pledged no foreign securities.

G.

	December 31,	
	2015	2014
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	71	107

Note 28 - Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Description of derivative instruments and the risks inherent in such activity

1) Overview

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivatives as fair value hedges or as cash flow hedges. For more information, see Note 1.D.15. to the financial statements.

2) Types and description of activity in derivative instruments

The activities in derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments ("underlying asset"), to be executed on a future date and at a price specified in advance.

- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.

- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.

- Spot trades (transactions for immediate delivery):

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.

- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.

3) Risks inherent in derivative instrument activities:

The Bank's activities in derivative instruments expose it to credit risks and to market risks that include interest rate riskss, basis risks and liquidity risks, as detailed below:

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

A. Credit exposure in derivative instruments, which is defined by the Supervisor of Banks as "present credit exposure", quantifies the maximum possible loss that the Bank will sustain if the other party does not fulfill the terms of the transaction, after deducting enforceable set-off agreements, and without taking collateral into account. To manage the credit extent of the exposure inherent in derivative instruments over the life of the transaction, the exposure is estimated at the price of the commitment in the reverse transaction for the remaining life of the transaction.

   Collateral requirements are determined according to the type of customer, and sometimes, at a fixed percentage of the credit facility determined for a given customer. In other cases, exposure is determined according to scenarios based on the Black and Scholes Model. The collateral required by the Bank usually includes liquid collateral such as securities, deposits, etc., and is valued as collateral in accordance with the various collateral coefficients used by the Bank.

   In the credit derivatives written by the Bank, the credit exposure is expressed in the amount that the Bank will be obliged to pay if the event stipulated in the contract occurs.

B. Market risk – the risk of fluctuation in value of derivatives due to unforeseen changes in interest rates, inflation rate, exchange rates and other financial benchmarks. The Bank manages the market risks involved in financial derivatives by including these instruments within the management of exposure to market risks of the entire range of the Bank's operations.

C. Liquidity risk – the risk of inability to quickly close the exposure by cash payment or by creating reverse exposure. The derivative instruments and their effect on liquidity needs are an integral part of the management of the Bank's liquidity risk in accordance with Proper Conduct of Banking Business Regulation 342.

D. Operational risk – the risk of erroneous operation of transactions, beginning from the date they are entered into until they are settled, due to human error or to machine error. The Bank minimizes operational risk in its derivatives operations by using computer-based processes and a complementary set of controls.

For more information see the Detailed Risk Management Report on the Bank website.

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis

						As of December 31, 2015
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	1,990	-	-	-	-	1,990
Other option contracts:						
Options written	-	59	-	-	-	59
Swaps	-	1,347	-	-	-	1,347
Total	1,990	1,406	-	-	-	3,396
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,347	-	-	-	1,347
B. ALM derivatives[1][2]						
Forward contracts	6,447	200	87,248	-	21	93,916
Option contracts traded on stock exchange:						
Options written	-	-	1,934	564	-	2,498
Options purchased	-	-	1,390	592	-	1,982
Other option contracts:						
Options written	-	-	8,848	-	-	8,848
Options purchased	-	-	8,519	-	-	8,519
Swaps	1,814	35,685	8,095	-	-	45,594
Total	8,261	35,885	116,034	1,156	21	161,357
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,543	20,369	-	-	-	21,912
C. Other derivatives[1]						
Forward contracts	-	-	1,244	-	-	1,244
Option contracts traded on stock exchange:						
Options written	-	-	5,485	22,343	-	27,828
Options purchased	-	-	5,485	22,343	-	27,828
Other option contracts:						
Options written	-	24	-	51	-	75
Options purchased	-	27	-	45	-	72
Swaps	-	4	133	9,759	-	9,896
Total	-	55	12,347	54,541	-	66,943
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	4	-	-	-	4

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis - continued

						As of December 31, 2015
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS – CPI	Other	contracts	for shares	contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	709	709
Foreign currency spot swap contracts	-	-	4,742	-	-	4,742
Total	-	-	4,742	-	709	5,451
Total stated amounts of derivative instruments	10,251	37,346	133,123	55,697	730	237,147
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives[(1)]						
Positive fair value, gross	47	1	-	-	-	48
Negative fair value, gross	-	135	-	-	-	135
B. ALM derivatives[(1)(2)]						
Positive fair value, gross	375	1,210	1,300	98	1	2,984
Negative fair value, gross	220	1,526	1,148	-	1	2,895
C. Other derivatives[(1)]						
Positive fair value, gross	-	-	86	412	-	498
Negative fair value, gross	-	-	86	518	-	604
Total						
Positive fair value, gross[(3)]	422	1,211	1,386	510	1	3,530
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	422	1,211	1,386	510	1	3,530
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	96	113	582	492	1	1,284
Total						
Negative fair value, gross	220	1,661	1,234	518	1	3,634
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	220	1,661	1,234	518	1	3,634
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	5	96	604	362	-	1,067

(1) Except for credit derivatives.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Of which: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 3 million.

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis - continued

	As of December 31, 2014					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[(1)]						
Forward contracts	3,502	-	-	-	-	3,502
Swaps	-	2,305	-	-	-	2,305
Total	3,502	2,305	-	-	-	5,807
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,305	-	-	-	2,305
B. ALM derivatives[(1)(2)]						
Forward contracts	6,006	800	97,208	-	13	104,027
Option contracts traded on stock exchange:						
Options written	-	-	2,683	1,914	-	4,597
Options purchased	-	-	3,363	1,955	-	5,318
Other option contracts:						
Options written	-	-	17,725	-	-	17,725
Options purchased	-	-	15,742	-	-	15,742
Swaps	1,925	31,395	10,109	-	-	43,429
Total	7,931	32,195	146,830	3,869	13	190,838
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,652	16,256	-	-	-	17,908
C. Other derivatives[(1)]						
Forward contracts	-	-	923	-	-	923
Option contracts traded on stock exchange:						
Options written	-	-	9,781	19,134	1	28,916
Options purchased	-	-	9,781	19,134	1	28,916
Other option contracts:						
Options written	-	235	-	49	-	284
Options purchased	-	287	-	65	-	352
Swaps	-	4	177	6,725	-	6,906
Total	-	526	20,662	45,107	2	66,297
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	4	-	-	-	4

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis - continued

	As of December 31, 2014					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Foreign currency spot swap contracts						
Foreign currency spot swap contracts	-	-	8,535	-	-	8,535
Total stated amounts of derivative instruments	11,433	35,026	176,027	48,976	15	271,477
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives[(1)]						
Positive fair value, gross	67	1	-	-	-	68
Negative fair value, gross	-	222	-	-	-	222
B. ALM derivatives[(1)(2)]						
Positive fair value, gross	279	1,374	2,876	265	-	4,794
Negative fair value, gross	217	1,634	3,685	8	-	5,544
C. Other derivatives[(1)]						
Positive fair value, gross	-	5	163	582	-	750
Negative fair value, gross	-	1	163	573	-	737
Total						
Positive fair value, gross[(3)]	346	1,380	3,039	847	-	5,612
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	346	1,380	3,039	847	-	5,612
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	104	125	1,027	791	-	2,047
Total						
Negative fair value, gross[(3)]	217	1,857	3,848	581	-	6,503
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	217	1,857	3,848	581	-	6,503
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	5	164	912	531	-	1,612

(1) Except for credit derivatives.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Of which: positive fair value, gross of assets with respect to embedded derivative instruments amounting to NIS 10 million and negative fair value, gross of liabilities with respect to embedded derivative instruments amounting to NIS 6 million.

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract - Consolidated – continued

	As of December 31, 2015					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**538**	**1,955**	**28**	**-**	**1,009**	**3,530**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,778)	-	-	(41)	(1,819)
Mitigation of credit risk with respect to cash collateral received	-	(82)	-	-	(2)	(84)
Net amount of assets with respect to derivative instruments	538	95	28	-	966	1,627
Off-balance sheet credit risk on derivative instruments[(2)]	-	1,275	116	-	1,201	2,592
Mitigation of off-balance sheet credit risk	-	(678)	-	-	(29)	(707)
Net off-balance sheet credit risk with respect to derivative instruments	-	597	116	-	1,172	1,885
Total credit risk on derivative instruments	538	692	144	-	2,138	3,512
Carrying amount of liabilities with respect to derivative instruments	**429**	**2,600**	**-**	**33**	**572**	**3,634**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,778)	-	-	(41)	(1,819)
Pledged cash collateral	-	(653)	-	-	-	(653)
Net amount of liabilities with respect to derivative instruments	429	169	-	33	531	1,162

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 3 million.

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract – Consolidated

						As of December 31, 2014
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**903**	**3,045**	**36**	**-**	**1,628**	**5,612**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(2,876)	-	-	(130)	(3,006)
Mitigation of credit risk with respect to cash collateral received	-	(116)	-	-	(38)	(154)
Net amount of assets with respect to derivative instruments	903	53	36	-	1,460	2,452
Off-balance sheet credit risk on derivative instruments[(2)]	-	1,629	42	-	988	2,659
Mitigation of off-balance sheet credit risk	-	(865)	-	-	(74)	(939)
Net off-balance sheet credit risk with respect to derivative instruments	-	764	42	-	914	1,720
Total credit risk on derivative instruments	903	817	78	-	2,374	4,172
Carrying amount of liabilities with respect to derivative instruments [(3)]	**685**	**4,815**	**-**	**32**	**971**	**6,503**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(2,876)	-	-	(130)	(3,006)
Pledged cash collateral	-	(1,830)	-	-	-	(1,830)
Net amount of liabilities with respect to derivative instruments	685	109	-	32	841	1,667

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 10 million.

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

(3) Includes negative fair value, gross, of embedded derivative instruments amounting to NIS 6 million.

In 2015, the Bank recognized credit losses with respect to derivatives, amounting to NIS 11 million (in 2014, the Bank recognized credit losses amounting to NIS 10 million; in 2013 the Bank recognized income from reduced credit losses amounting to NIS 28 million).

Note 28 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

D) Maturity dates – stated amounts: year-end balances – Consolidated

	As of December 31, 2015				
	Up to three months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	730	2,016	6,943	562	10,251
Other	3,221	6,593	17,143	10,389	37,346
Foreign currency contracts	87,832	35,464	7,601	2,226	133,123
Contracts for shares	47,693	7,806	198	-	55,697
Commodities and other contracts	9	12	490	219	730
Total	139,485	51,891	32,375	13,396	237,147

	As of December 31, 2014				
	Up to three months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	1,475	4,095	4,552	1,311	11,433
Other	1,629	5,845	15,173	12,379	35,026
Foreign currency contracts	96,388	67,412	6,533	5,694	176,027
Contracts for shares	42,280	6,627	69	-	48,976
Commodities and other contracts	10	5	-	-	15
Total	141,782	83,984	26,327	19,384	271,477

Note 29 - Operating Segments and Geographic Regions - Consolidated

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" below and Note 1.C.9 to the financial statements.

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division. This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 6-25 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The main products offered by the Bank's different operating segments are:

- **Banking and finance** – an array of banking services offered to private and corporate clients, including management of checking accounts, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** – security transactions for clients on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank clients.
- **Credit cards** – A set of financial products and banking services given in conjunction with credit cards issued to Bank clients by credit card companies in Israel.
- **Mortgages** – Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- **Construction and real estate** – banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

– Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to operations there of, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to Financial Management.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commission and other revenues are specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

In order to analyze results of Bank operations by relevant criteria, clients have been assigned to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank’s organizational structure, on client assignment to various departments and then to operating segments, and on attribution of results and balances to clients and segments in the profitability measurement system.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

For the year ended December 31, 2015

Reported amounts (NIS in millions)

B. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	2,794	9	531	166	617	(583)	3,534
Inter-segment	(820)	55	22	(1)	126	618	-
Total interest revenues, net	1,974	64	553	165	743	35	3,534
Non-interest financing revenues	2	1	2	-	32	321	358
Commissions and other revenues	713	66	248	52	246	175	1,500
Total revenues	2,689	131	803	217	1,021	531	5,392
Expenses with respect to credit losses	52	3	104	16	38	(2)	211
Operating and other expenses							
From outside operating segments	1,876	78	554	52	235	431	3,226
Inter-segment	(113)	3	(56)	60	90	16	-
Other operating expenses - total	1,763	81	498	112	325	447	3,226
Pre-tax profit	874	47	201	89	658	86	1,955
Provision for taxes on profit	330	18	76	34	247	56	761
After-tax profit	544	29	125	55	411	30	1,194
Share in net profits of associates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	544	29	125	55	411	30	1,194
Attributable to non-controlling interest	(39)	-	-	-	-	(21)	(60)
Attributable to shareholders of the banking corporation	505	29	125	55	411	9	1,134
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	7.8%	33.3%	19.6%	12.1%	11.4%	68.8%	10.0%
Average balance of assets	117,536	1,871	9,568	4,531	26,522	41,781	201,809
Of which: Investments in associates	-	-	-	-	-	36	36
Average balance of liabilities	71,386	8,937	13,240	5,181	46,812	39,326	184,882
Average balance of risk assets (1)	71,372	916	6,700	4,783	38,057	5,352	127,180
Average balance of provident and mutual fund assets	-	-	-	-	-	94,174	94,174
Average balance of securities (2)	39,609	3,043	15,169	4,134	80,326	82,658	224,939
Average balance of loans to the public	117,137	1,018	9,340	4,377	21,971	-	153,843
Average balance of deposits from the public	68,519	8,356	12,819	5,126	46,344	13,067	154,231
Loans to the public, net (end balance)	123,023	934	9,871	4,484	20,892	-	159,204
Deposits from the public (end balance)	72,284	8,512	13,903	5,345	50,816	11,520	162,380
Average balance of other assets managed(3)	8,759	6	143	276	1,711	-	10,895

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive No. 201).

(2) Average balance of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(3) Including:
- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin revenues or commissions.
- Other loans managed by the Bank.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

For the year ended December 31, 2015

Reported amounts (NIS in millions)

C. Information on profit from interest revenues before expenses with respect to credit losses

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,720	24	505	153	649	-	3,051
Margin from activities of receiving deposits	218	40	34	9	68	-	369
Other	36	-	14	3	26	35	114
Total interest revenues, net	1,974	64	553	165	743	35	3,534

D. Information about geographic regions[1]

	Revenues for the year ended December 31, 2015[2]	Net profit for the year ended December 31, 2015	Total assets as of December 31, 2015
Israel	5,248	1,091	201,688
Outside of Israel	144	43	7,470
Total consolidated	5,392	1,134	209,158

(1) Revenues and assets by geographic regions were allocated based on Group office locations.
(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

As of December 31, 2015

Reported amounts (NIS in millions)

E. Supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directive concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is determined by the turnover volume for clients, as follows. The Bank of Israel also issued a Q&A file with clarifications about implementation of the directive, referring *inter alia* to difficulty in obtaining information about revenues of business clients and stipulating that, when the Bank has no information about revenues of a business client who has no indebtedness or a small indebtedness to the bank (including credit facility), the bank may classify them under the relevant supervisory operating segment based on the number of employees or total assets on the balance sheet of the business - all as set forth in the Q&A file. If this information is also not available to the bank, then the bank may classify the client based on total financial assets of the client with the bank - all as stated in the Q&A file. In conformity with transitional provisions in the Q&A file, the bank may also apply the foregoing to business clients with indebtedness amounting up to NIS 300 thousand in 2017 - NIS 80 thousand.

The supervisory operating segments, according to the Reporting Directives, are:

- Households – individual, other than private banking.
- Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.
- Small and micro business – businesses with turnover amounting up to NIS 50 million.
- Medium business – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.
- Large business – businesses with turnover higher than NIS 250 million.
- Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.
- Financial management – includes trading operations, asset and liability management and non-banking investments.

Separate disclosure for each operation would be required as from quarterly and annual financial statements for 2016.

At this stage, the Bank reviews the materiality of the differences between the Supervisory Segments approach and the management approach. The Bank is also reviewing certain optional adjustments to management approach in this context.

According to transitional provisions for implementation of this directive, the financial statements for 2015 should include disclosure about balance sheet data for supervisory operating segments.

Full disclosure in conformity with the Directive should be provided in quarterly and annual financial statements for 2016.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

As of December 31, 2015

Reported amounts (NIS in millions)

E. Supervisory operating segments - continued

	Operations in Israel								Operations overseas				Total
	Households	Private banking	Small and micro business	Medium business	Large business	Institutional investors	Financial management	Total - operations in Israel	Private individuals	Business operations	Other segment	Total - operations overseas	
Loans to the public, net	122,878	68	13,589	5,165	12,402	2,025	-	156,127	545	2,532	-	3,077	159,204
Impaired debts	105	-	317	24	363	1	-	810	2	5	-	7	817
Debt in arrears 90 days or longer	974	-	38	-	-	-	-	1,012	-	-	-	-	1,012
Deposits from the public	66,643	10,244	15,220	5,365	24,933	35,935	-	158,340	840	3,200	-	4,040	162,380
Risk assets	73,829	31	10,858	7,207	25,084	3,388	5,568	125,965	405	3,116	-	3,521	129,486

Individuals - households and private banking - operations in Israel, consolidated

	Household Segment				Private Banking Segment				
	Housing loans	Credit cards	Other	Total - Households	Housing loans	Credit cards	Other	Total - Households	Total
Loans to the public, net	106,802	3,174	12,902	122,878	-	9	59	68	122,946
Impaired debts	24	-	81	105	-	-	-	-	105
Debt in arrears 90 days or longer	957	-	17	974	-	-	-	-	974
Deposits from the public	-	-	66,643	66,643	-	-	10,244	10,244	76,887
Risk assets	56,509	-	17,320	73,829	-	-	31	31	73,860

Small and micro, medium and large business - operations in Israel - consolidated

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Loans to the public, net	2,796	10,793	13,589	1,422	3,743	5,165	5,378	7,024	12,402
Impaired debts	68	249	317	4	20	24	132	231	363
Debt in arrears 90 days or longer	3	35	38	-	-	-	-	-	-
Deposits from the public	4,004	11,216	15,220	704	4,661	5,365	3,143	21,790	24,933
Risk assets	3,296	7,562	10,858	3,279	3,928	7,207	15,401	9,683	25,084

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

For the year ended December 31, 2014

Reported amounts (NIS in millions)

B. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	2,969	1	495	173	509	(772)	3,375
Inter-segment	(1,097)	62	22	(12)	235	790	-
Total interest revenues, net	1,872	63	517	161	744	18	3,375
Non-interest financing revenues	6	1	-	1	18	147	173
Commissions and other revenues	719	62	233	45	241	139	1,439
Total revenues	2,597	126	750	207	1,003	304	4,987
Expenses with respect to credit losses	94	3	98	(10)	(3)	(9)	173
Operating and other expenses							
From outside operating segments	1,829	80	528	55	220	327	3,039
Inter-segment	(115)	4	(54)	59	89	17	-
Other operating expenses - total	1,714	84	474	114	309	344	3,039
Pre-tax profit	789	39	178	103	697	(31)	1,775
Provision for taxes on profit	292	14	66	38	258	(11)	657
After-tax profit	497	25	112	65	439	(20)	1,118
Share in net profits of associates, after tax	-	-	-	-	-	5	5
Net profit:							
Before attribution to non-controlling interest	497	25	112	65	439	(15)	1,123
Attributable to non-controlling interest	(31)	-	-	-	-	-	(31)
Attributable to shareholders of the banking corporation	466	25	112	65	439	(15)	1,092
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	8.3%	33.1%	21.7%	15.4%	12.8%	-	10.6%
Average balance of assets	107,367	2,143	8,287	4,396	25,666	39,959	187,818
Of which: Investments in associates	-	-	-	-	-	52	52
Average balance of liabilities	65,452	8,592	10,654	4,114	46,002	43,358	178,172
Average balance of risk assets (1)	65,370	840	5,734	4,700	38,162	5,245	120,051
Average balance of provident and mutual fund assets	-	-	-	-	-	87,171	87,171
Average balance of securities (2)	38,888	2,630	11,443	4,445	70,016	77,684	205,106
Average balance of loans to the public	107,354	955	8,266	4,365	23,470	-	144,410
Average balance of deposits from the public	62,518	7,973	10,233	4,046	45,861	16,241	146,872
Loans to the public, net (end balance)	112,043	1,051	9,018	4,240	21,217	-	147,569
Deposits from the public (end balance)	65,701	9,090	11,068	4,546	47,117	14,857	152,379
Average balance of other assets managed(3)	10,252	6	167	293	631	-	11,349

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive No. 201).

(2) Average balance of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(3) Including:
- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin revenues or commissions.
- Other loans managed by the Bank.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

For the year ended December 31, 2014

Reported amounts (NIS in millions)

C. Information on profit from interest revenues before expenses with respect to credit losses

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,505	24	443	145	615	-	2,732
Margin from activities of receiving deposits	313	39	47	13	95	-	507
Other	54	-	27	3	34	18	136
Total interest revenues, net	1,872	63	517	161	744	18	3,375

D. Information about geographic regions[1]

	Revenues for the year ended December 31, 2014[2]	Net profit for the year ended December 31, 2014	Total assets as of December 31, 2014
Israel	4,859	1,058	191,331
Outside of Israel	128	34	7,182
Total consolidated	4,987	1,092	198,513

(1) Revenues and assets by geographic regions were allocated based on Group office locations.

(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

For the year ended December 31, 2013

Reported amounts (NIS in millions)

B. Information regarding operating segments(1)

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,689	(15)	444	190	419	(1,263)	3,464
Inter-segment	(1,825)	77	22	(24)	299	1,451	-
Total interest revenues, net	1,864	62	466	166	718	188	3,464
Non-interest financing revenues	7	2	-	1	32	(28)	14
Commissions and other revenues	771	54	248	59	219	134	1,485
Total revenues	2,642	118	714	226	969	294	4,963
Expenses with respect to credit losses	239	-	72	(5)	(17)	(1)	288
Operating and other expenses							
From outside operating segments	1,799	76	499	68	211	298	2,951
Inter-segment	(117)	14	(52)	64	79	12	-
Other operating expenses - total	1,682	90	447	132	290	310	2,951
Pre-tax profit	721	28	195	99	696	(15)	1,724
Provision for taxes on profit	248	10	67	34	240	(6)	593
After-tax profit	473	18	128	65	456	(9)	1,131
Share in net profits of associates, after tax	-	-	-	-	-	(4)	(4)
Net profit:							
Before attribution to non-controlling interest	473	18	128	65	456	(13)	1,127
Attributable to non-controlling interest	(44)	-	-	-	-	-	(44)
Attributable to shareholders of the banking corporation	429	18	128	65	456	(13)	1,083
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	8.7%	19.8%	26.5%	14.4%	14.1%	-	11.8%
Average balance of assets	98,654	1,814	7,511	4,689	25,426	30,665	168,759
Of which: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	62,681	7,002	8,862	3,505	38,412	38,490	158,952
Average balance of risk assets (2)	57,431	1,007	5,363	5,028	36,110	5,366	110,305
Average balance of provident and mutual fund assets	-	-	-	-	-	82,642	82,642
Average balance of securities (3)	31,406	8,604	6,420	3,806	62,203	61,525	173,964
Average balance of loans to the public	97,647	1,217	7,403	4,653	23,735	-	134,655
Average balance of deposits from the public	59,500	6,444	8,767	3,485	38,285	17,010	133,491
Loans to the public, net (end balance)	103,268	956	7,667	4,517	22,157	-	138,565
Deposits from the public (end balance)	60,793	7,027	9,517	3,408	43,467	17,032	141,244
Average balance of other assets managed(4)	10,861	6	198	284	230	-	11,579

(1) Reclassified.

(2) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive No. 201).

(3) Average balance of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(4) Including:
- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin revenues or commissions.
- Other loans managed by the Bank.

Note 29 - Operating Segments and Geographic Regions - Consolidated (continued)

For the year ended December 31, 2013

Reported amounts (NIS in millions)

C. Information on profit from interest revenues before expenses with respect to credit losses

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,340	30	377	143	582	-	2,472
Margin from activities of receiving deposits	455	30	63	16	96	-	660
Other	69	2	26	7	40	188	332
Total interest revenues, net	1,864	62	466	166	718	188	3,464

D. Information about geographic regions(1)

	Revenues for the year ended December 31, 2013(2)	Net profit for the year ended December 31, 2013	Total assets as of December 31, 2013
Israel	4,843	1,047	172,752
Outside of Israel	120	31	6,793
Total consolidated	4,963	1,078	179,545

(1) Revenues and assets by geographic regions were allocated based on Group office locations.

(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit losses

Consolidated

						December 31, 2015
						Provision for credit losses
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	632	624	189	1,445	5	1,450
Expenses with respect to credit losses	149	9	55	213	(2)	211
Accounting write-offs	(211)	(20)	(114)	(345)	-	(345)
Recovery of debts written off for accounting purposes in previous years	127	1	65	193	-	193
Net accounting write-offs	(84)	(19)	(49)	(152)	-	(152)
Balance of provision for credit losses at end of period	697	614	195	1,506	3	1,509
Of which: With respect to off balance sheet credit instruments	97	-	9	106	-	106
						December 31, 2014
Balance of provision for credit losses at start of period	[3]630	[3]640	148	1,418	10	1,428
Expenses with respect to credit losses	83	6	93	182	(9)	173
Accounting write-offs	(220)	(22)	(123)	(365)	-	(365)
Recovery of debts written off for accounting purposes in previous years	139	-	71	210	4	214
Net accounting write-offs	(81)	(22)	(52)	(155)	4	(151)
Balance of provision for credit losses at end of period	632	624	189	1,445	5	1,450
Of which: With respect to off balance sheet credit instruments	92	-	10	102	-	102
						December 31, 2013
Balance of provision for credit losses at start of period	[3] 726	[3] 815	154	1,695	10	1,705
Expenses with respect to credit losses	41	190	57	288	-	288
Accounting write-offs	(248)	[2] (365)	(142)	(755)	-	(755)
Recovery of debts written off for accounting purposes in previous years	111	-	79	190	-	190
Net accounting write-offs	(137)	(365)	(63)	(565)	-	(565)
Balance of provision for credit losses at end of period	630	640	148	1,418	10	1,428
Of which: With respect to off balance sheet credit instruments	92	-	11	103	-	103

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.

(3) Reclassified.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

1. Change in balance of provision for credit losses - continued

The Bank

						December 31, 2015
						Provision for credit losses
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	632	624	138	1,394	5	1,399
Expenses with respect to credit losses	149	9	44	202	(2)	200
Accounting write-offs	(211)	(20)	(91)	(322)	-	(322)
Recovery of debts written off for accounting purposes in previous years	127	1	51	179	-	179
Net accounting write-offs	(84)	(19)	(40)	(143)	-	(143)
Balance of provision for credit losses at end of period	697	614	142	1,453	3	1,456
Of which: With respect to off balance sheet credit instruments	97	-	8	105	-	105
						December 31, 2014
Balance of provision for credit losses at start of period	(3)630	(3)640	119	1,389	8	1,397
Expenses with respect to credit losses	83	6	68	157	(7)	150
Accounting write-offs	(220)	(22)	(105)	(347)	-	(347)
Recovery of debts written off for accounting purposes in previous years	139	-	56	195	4	199
Net accounting write-offs	(81)	(22)	(49)	(152)	4	(148)
Balance of provision for credit losses at end of period	632	624	138	1,394	5	1,399
Of which: With respect to off balance sheet credit instruments	92	-	9	101	-	101
						December 31, 2013
Balance of provision for credit losses at start of period	(3)726	(3)815	123	1,664	8	1,672
Expenses with respect to credit losses	41	190	52	283	-	283
Accounting write-offs	(248)	(2)(365)	(121)	(734)	-	(734)
Recovery of debts written off for accounting purposes in previous years	111	-	65	176	-	176
Net accounting write-offs	(137)	(365)	(56)	(558)	-	(558)
Balance of provision for credit losses at end of period	630	640	119	1,389	8	1,397
Of which: With respect to off balance sheet credit instruments	92	-	10	102	-	102

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.

(3) Reclassified.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated

Consolidated

						December 31, 2015
						Provision for credit losses
				Loans to the public		
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	29,656	24	758	30,438	3,412	33,850
reviewed on individual basis	8,503	105,922	15,741	130,166	-	130,166
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,046	105,419	-	106,465	-	106,465
Total debts	38,159	[2]105,946	16,499	160,604	3,412	164,016
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	516	1	22	539	3	542
reviewed on individual basis	84	613	164	861	-	861
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	4	613	-	617	-	617
Total provision for credit losses	600	614	186	1,400	3	1,403
						December 31, 2014[4]
Recorded debt balance of debts[1]						
reviewed on individual basis	29,514	3	641	30,158	4,691	34,849
reviewed on individual basis	8,129	96,239	14,386	118,754	-	118,754
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,195	95,513	-	96,708	-	96,708
Total debts	37,643	[2]96,242	15,027	148,912	4,691	153,603
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	464	-	22	486	5	491
reviewed on individual basis	76	624	157	857	-	857
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	6	624	-	630	-	630
Total provision for credit losses	540	624	179	1,343	5	1,348

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,421 million (as of December 31, 2014 - NIS 5,313 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 368 million (as of December 31, 2014 - NIS 339 million).
(4) Reclassified.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated - continued

The Bank

	December 31, 2015					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[(1)]						
reviewed on individual basis	29,656	24	502	30,182	2,873	33,055
reviewed on individual basis	8,503	105,880	7,761	122,144	-	122,144
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,046	105,377	-	106,423	-	106,423
Total debts	38,159	[(2)]105,904	8,263	152,326	2,873	155,199
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	516	1	19	536	3	539
reviewed on individual basis	84	613	115	812	-	812
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)]	4	613	-	617	-	617
Total provision for credit losses	600	614	134	1,348	3	1,351

	December 31, 2014[(4)]					
Recorded debt balance of debts[(1)]						
reviewed on individual basis	29,514	3	356	29,873	3,672	33,545
reviewed on individual basis	8,129	96,210	7,053	111,392	-	111,392
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,195	[(2)]95,529	-	96,724	-	96,724
Total debts	37,643	96,213	7,409	141,265	3,672	144,937
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	464	-	20	484	5	489
reviewed on individual basis	76	624	109	809	-	809
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)]	6	624	-	630	-	630
Total provision for credit losses	540	624	129	1,293	5	1,298

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,421 million (as of December 31, 2014 - NIS 5,313 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 368 million (as of December 31, 2014 - NIS 339 million).

(4) Reclassified.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

1.A. Credit quality and arrears
Consolidated

	As of December 31, 2015					
		Problematic[(2)]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate - construction[(8)]	8,719	64	83	8,866	10	14
Construction and real estate - real estate operations	2,023	2	124	2,149	1	2
Financial services	3,380	3	15	3,398	1	4
Commercial – other	19,679	265	476	20,420	26	136
Total commercial	33,801	334	698	34,833	38	156
Private individuals - housing loans	104,655	[(7)]956	24	105,635	[(7)]956	[(6)]347
Private individuals – other	15,983	109	81	16,173	17	81
Total public – activity in Israel	154,439	1,399	803	156,641	1,011	584
Banks in Israel	758	-	-	758	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	155,197	1,399	803	157,399	1,011	584
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,942	-	5	1,947	-	-
Commercial – other	1,370	-	9	1,379	-	-
Total commercial	3,312	-	14	3,326	-	-
Private individuals	636	1	-	637	1	-
Total public – activity overseas	3,948	1	14	3,963	1	-
Overseas banks	2,338	-	-	2,338	-	-
Overseas governments	316	-	-	316	-	-
Total activity overseas	6,602	1	14	6,617	1	-
Total public	158,387	1,400	817	160,604	1,012	584
Total banks	3,096	-	-	3,096	-	-
Total governments	316	-	-	316	-	-
Total	161,799	1,400	817	164,016	1,012	584

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 20 million was classified as problematic non-impaired debt.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 176 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debt amounting to NIS 1,285 million, extended to certain purchase groups which are in the process of construction.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears - continued

Consolidated

	As of December 31, 2014[10]					
		Problematic[2]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate - construction[8][9]	8,939	30	91	9,060	12	22
Construction and real estate - real estate operations	2,170	3	255	2,428	-	2
Financial services	3,296	59	59	3,414	2	13
Commercial – other	19,380	124	291	19,795	21	163
Total commercial	33,785	216	696	34,697	35	200
Private individuals - housing loans[9]	94,958	[7]945	3	95,906	[7]945	[6]305
Private individuals – other	14,566	105	73	14,744	21	70
Total public – activity in Israel	143,309	1,266	772	145,347	1,001	575
Banks in Israel	1,383	-	-	1,383	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	144,692	1,266	772	146,730	1,001	575
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,538	-	5	1,543	-	-
Commercial – other	1,393	6	4	1,403	-	58
Total commercial	2,931	6	9	2,946	-	58
Private individuals	619	-	-	619	-	-
Total public – activity overseas	3,550	6	9	3,565	-	58
Overseas banks	3,001	-	-	3,001	-	-
Overseas governments	307	-	-	307	-	-
Total activity overseas	6,858	6	9	6,873	-	58
Total public	146,859	1,272	781	148,912	1,001	633
Total banks	4,384	-	-	4,384	-	-
Total governments	307	-	-	307	-	-
Total	151,550	1,272	781	153,603	1,001	633

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 26 million was classified as problematic non-impaired debt.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 219 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debt amounting to NIS 1,423 million, extended to certain purchase groups which are in the process of construction.
(9) Reclassified.
(10) Following the directive by the Supervisor of Banks dated April 9, 2014, which stipulated revision of various sector categories to match those of the Central Bureau of Statistics, Comparative figures with respect to credit risk to the public and provision for credit losses (excluding housing loans) were reclassified.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Debt is classified as non-performing (impaired) debt, i.e. debt not accruing interest revenues, after 90 days in arrears for debt measured on individual basis or any debt re-structured as troubled debt which once again began to accrue interest, when it is again in arrears with regard to the new terms of such debt. Debt is classified as non-performing (inferior) debt, i.e. debt not accruing interest revenues, after 150 days in arrears for debt measured on group basis.

Furthermore, debt is classified as inferior debt after 60 days in arrears for debt measured on individual basis, and after 90 days in arrears for debt measured on group basis (at this stage, the debt is typically subject to accounting write-off). At this stage, i.e. within the 60 and 90 days for debt measured on individual basis and for debt measured on group basis, respectively, the debt would be classified as performing debt, i.e. accruing interest revenues.

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Board of Directors' Report under "Risk Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

Consolidated

						December 31, 2015
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debt in good standing	37,113	104,965	16,309	316	3,096	161,799
Problematic non-impaired debt[(1)]	334	957	109	-	-	1,400
Impaired debts	712	24	81	-	-	817
Total	38,159	105,946	16,499	316	3,096	164,016
						December 31, 2014
Debt in good standing	36,716	95,294	14,849	307	4,384	151,550
Problematic non-impaired debt[(1)]	222	945	105	-	-	1,272
Impaired debts	705	3	73	-	-	781
Total	37,643	96,242	15,027	307	4,384	153,603

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision

Consolidated

	December 31, 2015				
	Balance of impaired debt for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[(2)]	Total balance of impaired debts[(2)]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	59	13	24	83	191
Construction and real estate - real estate operations	108	12	16	124	275
Financial services	9	7	6	15	25
Commercial – other	393	86	83	476	573
Total commercial	569	118	129	698	1,064
Private individuals - housing loans	7	1	17	24	24
Private individuals – other	24	10	57	81	89
Total public – activity in Israel	600	129	203	803	1,177
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	600	129	203	803	1,177
Borrower activity overseas					
Public – commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	9	-	-	9	6
Total commercial	14	-	-	14	12
Private individuals	-	-	-	-	3
Total public – activity overseas	14	-	-	14	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	14	-	-	14	15
Total public	614	129	203	817	1,192
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	614	129	203	817	1,192
Of which:					
Measured at present value of cash flows	508	118	127	635	
Debts under problematic debt restructuring	155	17	74	229	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

Consolidated

	December 31, 2014				
	Balance of impaired debt for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	68	13	23	91	321
Construction and real estate - real estate operations	250	45	5	255	394
Financial services	10	6	49	59	94
Commercial – other	146	61	145	291	469
Total commercial	474	125	222	696	1,278
Private individuals - housing loans	3	-	-	3	3
Private individuals – other	18	8	55	73	82
Total public – activity in Israel	495	133	277	772	1,363
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	495	133	277	772	1,363
Borrower activity overseas					
Public – commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	4	-	-	4	6
Total commercial	9	-	-	9	12
Private individuals	-	-	-	-	3
Total public – activity overseas	9	-	-	9	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	9	-	-	9	15
Total public	504	133	277	781	1,378
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	504	133	277	781	1,378
Of which:					
Measured at present value of cash flows	220	88	233	453	
Debts under problematic debt restructuring	307	53	118	425	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues

Consolidated

	December 31, 2015			December 31, 2014			December 31, 2013		
	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	95	4	4	149	20	20	296[(5)]	19	17
Construction and real estate - real estate operations	184	-	-	337	5	5	389[(5)]	2	2
Financial services	68	4	4	110	1	1	233	1	1
Commercial – other	360	13	13	330	16	15	407	14	13
Total commercial	707	21	21	926	42	41	1,325	36	33
Private individuals - housing loans	8	-	-	2	-	-	3	-	-
Private individuals – other	80	3	2	78	4	3	83	6	5
Total public – activity in Israel	795	24	23	1,006	46	44	1,411	42	38
Banks in Israel	-	-	-	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-	-	-	-
Total activity in Israel	795	24	23	1,006	46	44	1,411	42	38
Borrower activity overseas									
Public – commercial									
Construction and real estate	5	-	-	16	-	-	34	-	-
Commercial – other	5	-	-	3	-	-	3	-	-
Total commercial	10	-	-	19	-	-	37	-	-
Private individuals	-	-	-	1	-	-	2	-	-
Total public – activity overseas	10	-	-	20	-	-	39	-	-
Overseas banks	-	-	-	-	-	-	3	-	-
Overseas governments	-	-	-	-	-	-	-	-	-
Total activity overseas	10	-	-	20	-	-	42	-	-
Total public	805	24	23	1,026	46	44	1,450	42	38
Total banks	-	-	-	-	-	-	3	-	-
Total governments	-	-	-	-	-	-	-	-	-
Total(4)	805	24	23	1,026	46	44	1,453	42	38

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Average recorded debt balance of impaired debts during reported period.

(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.

(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 71 million (As of December 31, 2014 - NIS 91 million; as of December 31, 2013 - NIS 97 million).

(5) Reclassified.

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debt

C. Problematic debts under restructuring

Consolidated

	December 31, 2015				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)], in arrears 30-89 days	Accruing interest revenues [(2)] not in arrears	Total(3)
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	21	-	-	-	21
Construction and real estate - real estate operations	102	-	-	-	102
Financial services	3	-	-	-	3
Commercial – other	35	-	-	12	47
Total commercial	161	-	-	12	173
Private individuals - housing loans	-	-	-	-	-
Private individuals – other	24	-	1	29	54
Total public – activity in Israel	185	-	1	41	227
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	185	-	1	41	227
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	-	-	1	2
Commercial – other	-	-	-	-	-
Total commercial	1	-	-	1	2
Private individuals	-	-	-	-	-
Total public – activity overseas	1	-	-	1	2
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	1	-	-	1	2
Total public	186	-	1	42	229
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	186	-	1	42	229

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debt

C. Problematic debt under restructuring - continued

Consolidated

					December 31, 2014[4]
					Recorded debt balance
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total(3)
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	34	-	-	-	34
Construction and real estate - real estate operations	253	-	1	-	254
Financial services	5	-	-	2	7
Commercial – other	49	-	-	18	67
Total commercial	341	-	1	20	362
Private individuals - housing loans	-	-	-	-	-
Private individuals – other	26	-	1	31	58
Total public – activity in Israel	367	-	2	51	420
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	367	-	2	51	420
Borrower activity overseas					
Public – commercial					
Construction and real estate	3	-	-	2	5
Commercial – other	-	-	-	-	-
Total commercial	3	-	-	2	5
Private individuals	-	-	-	-	-
Total public – activity overseas	3	-	-	2	5
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	3	-	-	2	5
Total public	370	-	2	53	425
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	370	-	2	53	425

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.
(4) Reclassified.

As of December 31, 2015, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts(1)

2. Additional information about impaired debt

C. Problematic debts under restructuring - continued

Consolidated

	Restructurings made (2)								
	December 31, 2015			December 31, 2014			December 31, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	22	4	2	12	2	1	8	6	6
Construction and real estate - real estate operations	-	-	-	4	-	-	1	-	-
Financial services	8	-	-	5	-	-	2	1	1
Commercial – other	149	17	13	109	58	56	90	57	54
Total commercial	179	21	15	130	60	57	101	64	61
Private individuals - housing loans	-	-	-	-	-	-	-	-	-
Private individuals – other	792	28	26	882	39	33	816	36	32
Total public – activity in Israel	971	49	41	1,012	99	90	917	100	93
Banks in Israel	-	-	-	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-	-	-	-
Total activity in Israel	971	49	41	1,012	99	90	917	100	93
Borrower activity overseas									
Public – commercial									
Construction and real estate	-	-	-	-	-	-	-	-	-
Commercial – other	-	-	-	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-	-	-	-
Private individuals	-	-	-	-	-	-	3	-	-
Total public – activity overseas	-	-	-	-	-	-	3	-	-
Overseas banks	-	-	-	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-	-	-	-
Total activity overseas	-	-	-	-	-	-	3	-	-
Total public	971	49	41	1,012	99	90	920	100	93
Total banks	-	-	-	-	-	-	-	-	-
Total governments	-	-	-	-	-	-	-	-	-
Total	971	49	41	1,012	99	90	920	100	93

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debts.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debt

C. Problematic debts under restructuring - continued

Consolidated

	Restructurings made which are in default[(2)]					
	December 31, 2015		December 31, 2014		December 31, 2013	
	Recorded debt balance					
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	2	-	3	-	1	-
Construction and real estate - real estate operations	-	-	-	-	-	-
Financial services	-	-	1	-	4	1
Commercial – other	43	2	32	3	12	12
Total commercial	45	2	36	3	17	13
Private individuals - housing loans	-	-	-	-	-	-
Private individuals – other	126	3	117	5	109	3
Total public – activity in Israel	171	5	153	8	126	16
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	171	5	153	8	126	16
Borrower activity overseas						
Public – commercial						
Construction and real estate	-	-	-	-	-	-
Commercial – other	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-
Private individuals	-	-	-	-	-	-
Total public – activity overseas	-	-	-	-	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	-	-	-	-	-	-
Total public	171	5	153	8	126	16
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	171	5	153	8	126	16

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[(1)], repayment type and interest type:

Consolidated

					December 31, 2015
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	65,486	2,253	44,325	5,085
	Over 60%	40,347	463	28,238	2,427
Junior lien or no lien		113	2	88	1,697
Total		105,946	2,718	72,651	9,209

					December 31, 2014
Senior lien: LTV ratio	Up to 60%	53,653	1,728	38,908	3,117
	Over 60%	42,495	586	32,023	1,759
Junior lien or no lien		94	3	79	1,613
Total		96,242	2,317	71,010	6,489

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

Consolidated

		December 31, 2015		
Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers[1]	Credit[2]	Credit risk Off balance sheet[3]
	Up to 10	191,122	247	297
Above 10	Up to 20	76,835	498	649
Above 20	Up to 40	114,518	1,552	1,833
Above 40	Up to 80	132,678	4,151	3,540
Above 80	Up to 150	97,221	7,732	3,055
Above 150	Up to 300	79,926	14,933	2,225
Above 300	Up to 600	74,897	30,586	2,830
Above 600	Up to 1,200	61,750	45,719	5,768
Above 1,200	Up to 2,000	13,414	17,275	2,533
Above 2,000	Up to 4,000	3,637	8,186	1,484
Above 4,000	Up to 8,000	1,076	4,544	1,238
Above 8,000	Up to 20,000	594	5,063	2,237
Above 20,000	Up to 40,000	217	3,639	2,274
Above 40,000	Up to 200,000	254	11,027	10,136
Above 200,000	Up to 400,000	37	3,990	6,384
Above 400,000	Up to 677,000	16	1,462	8,789
Total		848,192	160,604	55,272

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.
(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Banking Conduct Directive 313.

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk - continued

Consolidated

		December 31, 2014		
Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers(1)	Credit(2)	Credit risk Off balance sheet(3)
	Up to 10	193,580	246	281
Above 10	Up to 20	74,747	491	612
Above 20	Up to 40	112,434	1,508	1,788
Above 40	Up to 80	133,624	4,139	3,585
Above 80	Up to 150	96,320	7,571	3,057
Above 150	Up to 300	76,683	14,356	2,099
Above 300	Up to 600	70,163	28,649	2,611
Above 600	Up to 1,200	54,787	40,707	4,828
Above 1,200	Up to 2,000	11,563	14,903	2,211
Above 2,000	Up to 4,000	3,336	7,609	1,389
Above 4,000	Up to 8,000	1,030	4,079	1,455
Above 8,000	Up to 20,000	609	5,178	2,341
Above 20,000	Up to 40,000	208	3,680	2,316
Above 40,000	Up to 200,000	270	9,746	12,521
Above 200,000	Up to 400,000	35	4,601	5,333
Above 400,000	Up to 775,000	17	1,449	9,412
Total		829,406	148,912	55,839

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.
(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Banking Conduct Directive 313.

D. Purchase and sale of debts

	2015				2014			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	312	312	-	-	103	103
Loans sold	410	607	-	1,017	-	-	-	-

Note 30 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

			As of December 31	
	2015	2014	2015	2014
	Balance[1]	Balance[1]	Provision for credit losses	Provision for credit losses
1. Consolidated				
Transactions in which the balance represents a credit risk:				
- Documentary credit	472	345	3	2
- Loan guarantees	2,245	2,173	26	28
- Guarantees to home buyers	11,597	10,450	7	6
- Guarantees and other liabilities[2]	4,546	4,007	23	14
- Unutilized revolving credit card facilities	7,848	7,478	5	6
- Unutilized debitory account and other credit facilities in accounts available on demand	16,588	19,773	25	29
- Irrevocable commitments for loans approved but not yet granted	12,901	11,807	13	12
- Commitments to issue guarantees	5,629	7,040	4	5

2. The Bank				
Transactions in which the balance represents a credit risk:				
- Documentary credit	472	345	3	2
- Loan guarantees	2,230	2,161	26	28
- Guarantees to home buyers	11,597	10,450	7	6
- Guarantees and other liabilities[2]	4,521	3,974	23	14
- Unutilized revolving credit card facilities	5,200	4,967	5	5
- Unutilized debitory account and other credit facilities in accounts available on demand	14,692	17,813	24	29
- Irrevocable commitments for loans approved but not yet granted	12,901	11,807	13	12
- Commitments to issue guarantees	5,629	7,040	4	5

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 125 million. (on December 31, 2014 - NIS 177 million) see Note 26.C. 2. and Note 27.B. to the financial statements.

Note 31 - Assets and Liabilities by Linkage Basis

As of December 31, 2015

Reported amounts (NIS in millions)

A. Consolidated

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	27,705	121	2,053	290	320	-	30,489
Securities	7,002	66	3,755	914	10	98	11,845
Securities loaned or acquired in conjunction with resale agreements	-	71	-	-	-	-	71
Loans to the public, net[3]	95,814	51,836	7,660	2,142	1,752	-	159,204
Loans to Governments	-	-	160	156	-	-	316
Investments in associates	35	-	-	-	-	1	36
Buildings and equipment	-	-	-	-	-	1,583	1,583
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	2,291	356	757	84	39	-	3,527
Other assets	1,591	283	59	1	22	44	2,000
Total assets	134,438	52,733	14,444	3,587	2,143	1,813	209,158
Liabilities							
Deposits from the public	109,091	16,764	27,751	6,030	2,744	-	162,380
Deposits from banks	259	287	539	70	11	-	1,166
Deposits from the Government	20	9	29	-	-	-	58
Debentures and subordinated notes	4,982	18,737	-	-	-	-	23,719
Liabilities with respect to derivative instruments	2,311	181	873	243	26	-	3,634
Other liabilities	4,479	822	245	17	46	177	5,786
Total liabilities	121,142	36,800	29,437	6,360	2,827	177	196,743
Difference	13,296	15,933	(14,993)	(2,773)	(684)	1,636	12,415
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	1,939	(1,939)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(13,382)	(3,972)	14,132	2,816	406	-	
Net in-the-money options (in terms of underlying asset)	(845)	-	649	84	108	4	-
Net out-of-the-money options (in terms of underlying asset)	(270)	-	246	(11)	38	(3)	-
Total	738	10,022	34	116	(132)	1,637	12,415
Net in-the-money options (capitalized par value)	(760)	-	1,010	(110)	(140)	-	
Net out-of-the-money options (capitalized par value)	595	-	(500)	(262)	167	-	-

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 31 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2014

Reported amounts (NIS in millions)

A. Consolidated - continued

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	22,083	141	3,702	545	327	-	26,798
Securities	10,192	699	1,786	1,468	10	104	14,259
Securities loaned or acquired in conjunction with resale agreements	49	58	-	-	-	-	107
Loans to the public, net[3]	82,823	52,876	8,334	2,004	1,532	-	147,569
Loans to Governments	-	-	152	155	-	-	307
Investments in associates	35	-	-	-	-	17	52
Buildings and equipment[4]	-	-	-	-	-	1,570	1,570
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	3,094	460	1,926	46	76	-	5,602
Other assets[4]	1,701	368	31	1	20	41	2,162
Total assets	119,977	54,602	15,931	4,219	1,965	1,819	198,513
Liabilities							
Deposits from the public	98,541	19,040	27,025	5,086	2,687	-	152,379
Deposits from banks	395	339	401	79	44	-	1,258
Deposits from the Government	9	15	31	-	-	-	55
Securities loaned or sold in conjunction with repurchase agreements	223	-	-	-	-	-	223
Debentures and subordinated notes	2,375	18,205	-	-	-	-	20,580
Liabilities with respect to derivative instruments	3,095	200	2,911	278	13	-	6,497
Other liabilities[4]	4,413	1,317	187	12	44	244	6,217
Total liabilities	109,051	39,116	30,555	5,455	2,788	244	187,209
Difference	10,926	15,486	(14,624)	(1,236)	(823)	1,575	11,304
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,422	(3,422)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(11,334)	(3,836)	14,045	465	660	-	-
Net in-the-money options (in terms of underlying asset)	(746)	-	188	524	32	2	-
Net out-of-the-money options (in terms of underlying asset)	(453)	-	302	158	(1)	(6)	-
Total	1,815	8,228	(89)	(89)	(132)	1,571	11,304
Net in-the-money options (capitalized par value)	757	-	(396)	(270)	(91)	-	-
Net out-of-the-money options (capitalized par value)	1,033	-	(850)	(217)	34	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.
(4) Restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs - see Note 1.C.1 and 1.C.2. to the financial statements.

Note 31 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2015

Reported amounts (NIS in millions)

B. **The Bank**

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	21,916	-	1,907	275	167	-	24,265
Securities	7,003	65	3,745	893	-	98	11,804
Securities loaned or acquired in conjunction with resale agreements	-	71	-	-	-	-	71
Loans to the public, net[3]	88,217	51,490	7,606	2,092	1,573	-	150,978
Loans to Governments	-	-	160	156	-	-	316
Investments in investees	35	550	-	-	-	2,074	2,659
Buildings and equipment	-	-	-	-	-	1,344	1,344
Assets with respect to derivative instruments	2,290	356	757	84	39	-	3,526
Other assets	1,392	283	58	1	22	44	1,800
Total assets	120,853	52,815	14,233	3,501	1,801	3,560	196,763
Liabilities							
Deposits from the public	98,249	30,754	26,922	5,703	2,580	-	164,208
Deposits from banks	5,526	2,418	1,192	316	150	-	9,602
Deposits from the Government	-	9	29	-	-	-	38
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	100	3,027	-	-	-	-	3,127
Liabilities with respect to derivative instruments	2,308	181	873	243	26	-	3,631
Other liabilities	3,022	818	243	17	33	177	4,310
Total liabilities	109,205	37,207	29,259	6,279	2,789	177	184,916
Difference	11,648	15,608	(15,026)	(2,778)	(988)	3,383	11,847
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	1,939	(1,939)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(13,381)	(3,972)	14,034	2,826	493	-	-
Net in-the-money options (in terms of underlying asset)	(845)	-	649	84	108	4	-
Net out-of-the-money options (in terms of underlying asset)	(270)	-	246	(11)	38	(3)	-
Total	(909)	9,697	(97)	121	(349)	3,384	11,847
Net in-the-money options (capitalized par value)	(760)	-	1,010	(110)	(140)	-	-
Net out-of-the-money options (capitalized par value)	595	-	(500)	(262)	167	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 31 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2014

Reported amounts (NIS in millions)

B. **The Bank - continued**

	Israeli currency		In foreign currency[1]			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	18,303	20	3,508	496	98	0	22,425
Securities	8,212	489	1,780	1,468	-	104	12,053
Securities loaned or acquired in conjunction with resale agreements	49	58	-	-	-	-	107
Loans to the public, net[3]	76,008	52,391	8,272	1,972	1,329	-	139,972
Loans to Governments	-	-	152	155	-	-	307
Investments in investees	35	531	-	-	-	1,945	2,511
Buildings and equipment[4]	-	-	-	-	-	1,384	1,384
Assets with respect to derivative instruments	3,092	460	1,926	46	76	0	5,600
Other assets[4]	1,517	361	30	1	14	41	1,964
Total assets	107,216	54,310	15,668	4,138	1,517	3,474	186,323
Liabilities							
Deposits from the public	87,120	31,343	26,117	4,775	2,479	-	151,834
Deposits from banks	4,681	2,124	1,071	327	130	-	8,333
Deposits from the Government	-	15	31	-	-	-	46
Securities loaned or sold in conjunction with repurchase agreements	223	-	-	-	-	-	223
Debentures and subordinated notes	-	3,777	-	-	-	-	3,777
Liabilities with respect to derivative instruments	3,094	200	2,911	278	13	-	6,496
Other liabilities[4]	3,052	1,295	184	12	30	244	4,817
Total liabilities	98,170	38,754	30,314	5,392	2,652	244	175,526
Difference	9,046	15,556	(14,646)	(1,254)	(1,135)	3,230	10,797
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,422	(3,422)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(11,334)	(3,836)	13,936	481	753	-	-
Net in-the-money options (in terms of underlying asset)	(745)	-	187	524	32	2	-
Net out-of-the-money options (in terms of underlying asset)	(453)	-	302	158	(1)	(6)	-
Total	(64)	8,298	(221)	(91)	(351)	3,226	10,797
Net in-the-money options (capitalized par value)	757	-	(396)	(270)	(91)	-	-
Net out-of-the-money options (capitalized par value)	1,033	-	(850)	(217)	34	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.
(4) Restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs - see Note 1.C.1 and 1.C.2. to the financial statements.

Note 32 - Assets and liabilities by currency and by term to maturity[1] - consolidated

As of December 31, 2015

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Israeli currency (including linked to foreign currency)						
Assets	[3]39,361	6,220	20,200	18,234	13,628	15,011
Liabilities	78,508	19,840	20,568	10,736	3,632	9,937
Difference	(39,147)	(13,620)	(368)	7,498	9,996	5,074
Future transactions	(12,459)	(10,219)	6,848	(272)	(155)	191
Options	(349)	(166)	(468)	(3)	-	-
Difference after effect of derivative instruments	(51,955)	(24,005)	6,012	7,223	9,841	5,265
Foreign currency						
Assets	4,102	1,135	3,594	912	823	1,170
Liabilities	18,613	9,601	8,625	422	51	291
Difference	(14,511)	(8,466)	(5,031)	490	772	879
Of which: Difference in USD	(6,692)	(3,911)	(5,086)	5	350	259
Of which: Difference with respect to foreign operations	549	(979)	987	352	430	6
Future transactions	12,459	10,219	(6,848)	272	155	(191)
Options	349	166	468	3	-	-
Difference after effect of derivative instruments	(1,703)	1,919	(11,411)	765	927	688
Total						
Assets	43,463	7,355	23,794	19,146	14,451	16,181
Liabilities	97,121	29,441	29,193	11,158	3,683	10,228
Difference	(53,658)	(22,086)	(5,399)	7,988	10,768	5,953
Of which: Loans to the public	12,062	6,557	20,523	17,445	14,065	11,390
Of which: Deposits from the public	91,997	28,762	23,986	5,226	3,083	486

(1)

(2) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(3) Includes assets totaling NIS 399 million which are past due.

(4) Includes NIS 6,953 million of loans at debitory account terms and NIS 315 million exceeding limits in debitory account facilities.

(5) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Balance sheet balance Without maturity	Total	Contractual rate of return[4]
9,809	38,341	43,668	13,192	217,664	2,006[2]	190,998	3.15%
1,754	12,934	4,930	262	163,101	97	158,542	2.11%
8,055	25,407	38,738	12,930	54,563	1,909	32,456	
(715)	(228)	-	-	(17,009)	-	(17,009)	
-	-	-	-	(986)	-	(986)	
7,340	25,179	38,738	12,930	36,568	1,909	14,461	
559	2,140	903	1,552	16,890	48[2]	16,347	2.28%
164	327	7	-	38,101	1	38,024	1.02%
395	1,813	896	1,552	(21,211)	47	(21,677)	
170	256	17	-	(14,632)	-	(14,628)	
191	524	201	138	2,399	-	2,406	
715	228	-	-	17,009	-	17,009	
-	-	-	-	986	-	986	
1,110	2,041	896	1,552	(3,216)	47	(3,682)	
10,368	40,481	44,571	14,744	234,554	2,054	207,345	3.06%
1,918	13,261	4,937	262	201,202	98	196,566	2.07%
8,450	27,220	39,634	14,482	33,352	1,956	10,779	
9,894	37,193	43,891	13,329	186,349	1,768	159,204	3.43%
1,311	7,213	3,698	-	165,762	-	162,380	1.80%

Note 32 - Assets and liabilities by currency and by term to maturity[1]-the Bank - continued

As of December 31, 2015

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Israeli currency (including linked to foreign currency)						
Assets	(3)32,445	5,803	18,292	16,926	12,641	14,126
Liabilities	61,381	20,593	21,084	10,301	4,380	7,494
Difference	(28,936)	(14,790)	(2,792)	6,625	8,261	6,632
Future transactions	(12,459)	(10,219)	6,848	(272)	(155)	191
Options	(349)	(166)	(468)	(3)	-	-
Difference after effect of derivative instruments	(41,744)	(25,175)	3,588	6,350	8,106	6,823
Foreign currency						
Assets	3,590	1,076	3,567	911	822	1,160
Liabilities	17,626	9,872	8,998	472	51	291
Difference	(14,036)	(8,796)	(5,431)	439	771	869
Of which: Difference in USD	(6,359)	(4,188)	(5,476)	(45)	350	250
Of which: Difference with respect to foreign operations	328	(1,269)	576	302	430	6
Future transactions	12,459	10,219	(6,848)	272	155	(191)
Options	349	166	468	3	-	-
Difference after effect of derivative instruments	(1,228)	1,589	(11,811)	714	926	678
Total						
Assets	36,035	6,879	21,859	17,837	13,463	15,286
Liabilities	79,007	30,465	30,082	10,773	4,431	7,785
Difference	(42,972)	(23,586)	(8,223)	7,064	9,032	7,501
Of which: Loans to the public	10,337	6,081	18,638	16,137	13,078	10,627
Of which: Deposits from the public	75,165	28,054	27,179	9,046	3,471	6,424

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.
(2) Includes assets totaling NIS 323 million which are past due.
(3) Includes NIS 6,049 million of loans at debitory account terms and NIS 238 million exceeding limits in debitory account facilities.
(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

						Book balance	
4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	Contractual rate of return(4)
9,233	37,075	43,634	13,192	203,367	1,852(2)	177,494	3.03%
10,492	12,721	4,615	262	153,323	30	147,003	2.06%
(1,259)	24,354	39,019	12,930	50,044	1,822	30,491	
(715)	(228)	-	-	(17,009)	-	(17,009)	
-	-	-	-	(986)	-	(986)	
(1,974)	24,126	39,019	12,930	32,049	1,822	12,496	
540	2,140	903	1,552	16,261	48(2)	15,709	2.28%
164	327	7	-	37,808	1	37,736	0.91%
376	1,813	896	1,552	(21,547)	47	(22,027)	
170	256	17	-	(15,025)	-	(15,026)	
191	524	201	138	1,427	-	1,429	
715	228	-	-	17,009	-	17,009	
-	-	-	-	986	-	986	
1,091	2,041	896	1,552	(3,552)	47	(4,032)	
9,773	39,215	44,537	14,744	219,628	1,900	193,203	2.95%
10,656	13,048	4,622	262	191,131	31	184,739	2.02%
(883)	26,167	39,915	14,482	28,497	1,869	8,464	
9,318	35,926	43,857	13,329	177,328	1,614	150,978	3.31%
8,157	7,603	3,698	-	168,797	-	164,208	1.64%

Note 32 - Assets and liabilities by currency and by term to maturity[1] - consolidated and the Bank - continued

As of December 31, 2014

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Consolidated						
Assets	45,737[2]	7,389	23,995	18,844	14,003	12,892
Liabilities	97,458	23,372	27,748[7]	9,769	8,230	3,610
Difference	(51,721)	(15,983)	(3,753)	9,075	5,773	9,282
The Bank						
Assets	40,243[3]	6,829	21,518	17,588	12,604	12,091
Liabilities	83,076	22,433	29,561[7]	10,715	8,168	3,618
Difference	(42,833)	(15,604)	(8,043)	6,873	4,436	8,473

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.
(2) Includes NIS 6,413 million of loans at debitory account terms and NIS 286 million exceeding limits in debitory account facilities.
(3) Includes NIS 5,484 million of loans at debitory account terms and NIS 217 million exceeding limits in debitory account facilities.
(4) Includes assets totaling NIS 364 million which are past due.
(5) Includes assets totaling NIS 304 million which are past due.
(6) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.
(7) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1 to the financial statements.

	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Book balance: Without maturity	Book balance: Total	Contractual rate of return[6]
	8,883	39,685	39,933	12,168	223,529	1,223[4]	196,613	3.36%
	6,328	11,399	4,765	219	192,898[7]	84	186,886[7]	2.34%
	2,555	28,286	35,168	11,949	30,631	1,139	9,727	
	8,869	37,508	39,819	11,911	208,980	1,081[5]	182,771	3.31%
	7,078	12,063	4,765	219	181,696[7]	33	175,221[7]	2.43%
	1,791	25,445	35,054	11,692	27,284	1,048	7,550	

Note 33 – Balances and Estimates of Fair Value of Financial Instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

The estimate of fair value using future cash flows and determination of a discount rate are subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments:

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.

The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages, on annual basis. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.

Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.

The early repayment assumptions resulted in a NIS 2 million decrease in total fair value of assets, and in a NIS 78 million decrease in total fair value of liabilities.

Note 33 – Balances and Estimates of Fair Value of Financial Instruments – continued

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to Bank management, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For debentures and subordinated notes traded as an asset on an active market, quoted or based on trader quotes for identical liabilities traded as an asset on an active market.

C. Negotiable securities, see Note 16.1 to the financial statements.

D. Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated. The balance of housing loans is divided into homogeneous risk categories.
These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar client (for housing loans – a rate which reflects the risk associated with the category).
In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

F. Impaired debt – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debt were calculated after deducting the provisions for credit losses and after deducting accounting write-offs.
A decrease of 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 27 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

Note 33 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

H. Derivative instruments - see Note 16.1 to the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivatives and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

					Consolidated
					December 31, 2015
	Book balance	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	30,489	4,623	23,962	1,898	30,483
Securities[(3)]	11,845	8,840	2,784	292	11,916
Securities loaned or purchased in resale agreements	71	71	-	-	71
Loans to the public, net	159,204	312	11,041	148,178[(5)]	159,531
Loans to Governments	316	-	-	316	316
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	3,527	565	2,237	725[(2)]	3,527
Other financial assets	987	580	-	407	987
Total financial assets	206,474[(4)]	14,991	40,024	151,851	206,866
Financial liabilities					
Deposits from the public	162,380	312	43,565	120,507	164,384
Deposits from banks	1,166	-	313	863	1,176
Deposits from the Government	58	-	-	65	65
Debentures and subordinated notes	23,719	23,132	-	1,262	24,394
Liabilities with respect to derivative instruments	3,634	429	2,387	818[(2)]	3,634
Other financial liabilities	4,451	121	3,530	800	4,451
Total financial liabilities	195,408[(4)]	23,994	49,795	124,315	198,104

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 50,442 million and NIS 47,044 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.
(5) Of which embedded derivatives in loans to the public, net amounting to NIS 2 million.

Note 33 - Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

					Consolidated
					December 31, 2014
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Fair value Total
Financial assets					
Cash and deposits with banks	26,798	6,324	17,239	3,238	26,801
Securities[(3)]	14,259	11,073	2,947	317	14,337
Securities loaned or purchased in resale agreements	107	107	-	-	107
Loans to the public, net	147,569	487	10,230	137,517[(5)]	148,234
Loans to Governments	307	-	-	300	300
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	5,602	939	3,686	977[(2)]	5,602
Other financial assets	1,931	675	-	1,256	1,931
Total financial assets	196,608[(4)]	19,605	34,102	143,640	197,347
Financial liabilities					
Deposits from the public	152,379	487	32,571	121,739[(5)]	154,797
Deposits from banks	1,258	-	307	911	1,218
Deposits from the Government	55	-	-	64	64
Securities loaned or sold in conjunction with resale agreements	223	223	-	-	223
Debentures and subordinated notes	20,580	19,765	-	1,924	21,689
Liabilities with respect to derivative instruments	6,497	685	4,776	1,036[(2)]	6,497
Other financial liabilities	4,937[(6)]	390	3,291	1,256	4,937
Total financial liabilities	185,929[(4)]	21,550	40,945	126,930[(6)]	189,425

(1) Level 1 - Fair value measurement using quoted prices on an active market; Level 2 - Fair value measurement using other significant observed data; Level 3 - Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 49,900 million and NIS 42,383 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 10 million and NIS 6 million, respectively.

(6) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs - see Note 1.C.1 to the financial statements.

Note 33 - Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

				Consolidated
				December 31, 2015
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures				
of Government of Israel	3,561	2,685	-	6,246
Of foreign governments	1,664	-	-	1,664
Of banks and financial institutions in Israel	-	-	-	-
Of banks and financial institutions overseas	-	78	196	274
Of others overseas	-	21	-	21
Shares	2	-		2
Securities held for trading:				
Debentures of the Government of Israel	222	-	-	222
Securities loaned or acquired in resale agreements	71	-	-	71
Credit with respect to loans to clients	312	-	-	312
Assets with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	-	297	125	422
Other	-	1,143	68	1,211
Foreign currency contracts	127	797	462	1,386
Contracts for shares	438	-	69	507
Commodities and other contracts	-	-	1	1
Other financial assets	580	-	-	580
Other	-	-	3	3
Total assets	6,977	5,021	924	12,922
Liabilities				
Deposits with respect to borrowing from clients	312	-	-	312
Securities loaned or acquired in resale agreements				
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	-	202	18	220
Other	-	1,541	120	1,661
Foreign currency contracts	89	643	502	1,234
Contracts for shares	340	-	178	518
Commodities and other contracts	-	1	-	1
Other financial liabilities	121	-	-	121
Other	-	-	-	-
Total liabilities	862	2,387	818	4,067

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 33 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

1. On recurring basis

				Consolidated
				December 31, 2014
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures				
of Government of Israel	4,459	2,877	-	7,336
Of foreign governments	115	-	-	115
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	20	199	219
Of others in Israel	1	-	-	1
Of others overseas	-	50	16	66
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	1,034	-	-	1,034
Securities loaned or acquired in resale agreements	107	-	-	107
Credit with respect to loans to clients	487	-	-	487
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	227	119	346
Other	-	1,322	58	1,380
Foreign currency contracts	232	2,127	680	3,039
Contracts for shares	707	10	120	837
Other financial assets	675	-	-	675
Other	-	-	10	10
Total assets	7,942	6,633	1,202	15,777
Liabilities				
Deposits with respect to borrowing from clients	487	-	-	487
Securities loaned or acquired in resale agreements	223	-	-	223
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	207	10	217
Other	-	1,684	173	1,857
Foreign currency contracts	235	2,877	736	3,848
Contracts for shares	450	8	117	575
Other financial liabilities	(2)390	-	-	390
Other	-	-	6	6
Total liabilities	1,785	4,776	1,042	7,603

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(2) Reclassified.

Note 33 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

2. On non-recurring basis

	Consolidated				
	December 31, 2015				For the year ended December 31, 2015
	Fair value				
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Losses
Impaired credit whose collection is contingent on collateral	-	27	92	119	(28)

	Consolidated				
	December 31, 2014 [2]				For the year ended December 31, 2014
	Fair value				
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Losses
Impaired credit whose collection is contingent on collateral	-	54	175	229	(122)

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.

(2) Reclassified.

Note 33 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

Consolidated									
									For the year ended December 31, 2015
		Realized / unrealized gain s(losses) included, net[1]							
	Fair value as of December 31, 2014	In stateme nt of profit and loss	In stateme nt of other compreh ensive income under Equity	Acquisi-tions	Sales	Dispos-itions	Transfer to level 3	Fair value as of December 31, 2015	Unrealized gains (losses) with respect to instruments held as of December 31, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	199	(3)	-	-	-	-	-	196	(3)
Of others overseas	16	(16)	-	-	-	-	-	-	(16)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	119	49	-	13	-	(103)	47	125	108
Other	58	(2)	-	13	-	(1)	-	68	35
Foreign currency contracts	680	131	-	1,298	-	(1,647)	-	462	200
Contracts for shares	120	90	-	148	-	(289)	-	69	-
Commodities and other contracts	-	1	-	1	-	(1)	-	1	
Other	10	(7)	-	-	-	-	-	3	-
Total assets	1,202	243	-	1,473	-	(2,041)	47	924	324
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	10	2	-	5	-	(4)	5	18	(16)
Other	173	(51)	-	22	-	(24)	-	120	17
Foreign currency contracts	736	305	-	1,200	-	(1,739)	-	502	(248)
Contracts for shares	117	50	-	169	-	(158)	-	178	-
Other	6	(6)	-	-	-	-	-	-	-
Total liabilities	1,042	300	-	1,396	-	(1,925)	5	818	(247)

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 33 - Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	Consolidated								
	For the year ended December 31, 2014								
		Realized / unrealized gain s(losses) included, net[1]							
	Fair value as of December 31, 2013	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2014	Unrealized gain s(losses) with respect to instruments held as of December 31, 2014
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	176	23	-	-	-	-	-	199	23
Of others overseas	24	(3)	-	-	(5)	-	-	16	(3)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	56	117	-	23	-	(122)	45	119	104
Other	67	(17)	-	13	-	(5)	-	58	40
Foreign currency contracts	321	251	-	1,025	-	(917)	-	680	292
Contracts for shares	91	29	-	99	-	(99)	-	120	-
Commodities and other contracts	1	-	-	1	-	(2)	-	-	-
Other	11	(1)	-	-	-	-	-	10	-
Total assets	747	399	-	1,161	(5)	(1,145)	45	1,202	456
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	11	6	-	1	-	(12)	4	10	(10)
Other	134	17	-	31	-	(9)	-	173	(11)
Foreign currency contracts	503	189	-	780	-	(736)	-	736	(498)
Contracts for shares	83	74	-	85	-	(125)	-	117	-
Commodities and other contracts	1	1	-	-	-	(2)	-	-	-
Other	14	(1)	-	-	-	(7)	-	6	-
Total liabilities	746	286	-	897	-	(891)	4	1,042	(519)

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 33 - Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Consolidated				
	Fair value as of December 31, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
CLN	196	Cash flow discounting	Probability of default	1.16%-0.83%	0.92%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	73	Cash flows discounting	Inflationary expectations	(0.14%)-(0.16%)	0.02%
Contracts for shares	2	Option pricing model	Standard deviation for shares	29.46% - 95.52%	78.0%
Other	653	Cash flows discounting	Counter-party credit quality	0.30% - 3.10%	1.59%
Liabilities with respect to derivative instruments:				95.52% - 29.46%	
Interest contracts - NIS CPI	7	Cash flows discounting	Inflationary expectations	(0.13%)-(0.16%)	1.35%
Other	811	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.85%

	Consolidated				
	Fair value as of December 31, 2014	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recuperation rate	Recuperation rate	5.00%	5.00%
CLN	194	Cash flow discounting	Probability of default	0.22%-1.23%	1.11%
Debentures of foreign others	16	Cash flow discounting	Discount rate		6.02%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	73	Cash flow discounting	Inflationary expectations	0.38% - 0.35%	0.36%
Contracts for shares	10	Option pricing model	Standard deviation for shares	81.21% - 28.60%	62.5%
Other	904	Cash flow discounting	Counter-party credit quality	3.10% - 0.30%	1.72%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	4	Cash flow discounting	Inflationary expectations	0.36% - 0.35%	0.35%
Other	1,038	Cash flow discounting	Counter-party credit quality	3.10% - 0.30%	1.71%

Note 33 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Due to election of the fair value option, the Bank treats investments in certain debentures at fair value, charging the changes to profit and loss and classifies them under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risk with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

Note 33 - Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

The following table lists the fair value of items measured at fair value due to the election of the fair value option:

		Consolidated
	Fair value as of December 31, 2015	Gains with respect to changes in fair value for the year ended December 31, 2015
Securities available for sale	-	6

		Consolidated
	Fair value as of December 31, 2014	Gains with respect to changes in fair value for the year ended December 31, 2014
Securities available for sale	647	6

Note 34 - Interested and Related Parties - Consolidated

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2015									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-owned associates or investees	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets										
Loans to the public	1	1	15	15	163	1,212	-	-	-	5
Provision for credit losses	-	-	-	-	2	3	-	-	-	-
Loans to the public, net	1	1	15	15	161	1,209	-	-	-	5
Investments in associates	-	-	-	-	-	-	-	-	36	52
Liabilities										
Deposits from the public	7	32	65	79	382	852	-	-	3	20
Shares (included in shareholders' equity)[2]	5,261	5,261	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[3]	-	1	18	19	184	269	-	-	-	-

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's capital.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.
(6) Restated. For more information about adoption of the Supervisor of Banks' directives with regard to "Disclosure of interested parties and related parties", see Note 1.C.7 to the financial statements.

									As of December 31, 2014
							Interested parties		Related parties owned by the banking corporation
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-owned associates or investees
Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
1	1	10	11	362[6]	578[6]	-	-	2	13
-	-	-	-	3[6]	16[6]	-	-	-	-
1	1	10	11	359[6]	562[6]	-	-	2	13
-	-	-	-	-	-	-	-	52	64
14	18	58	71	613[6]	1,772[6]	-	-	10	27
4,895	4,895	-	-	-	-	-	-	-	-
-	1	12	13	213	284	-	-	-	-

Note 34 - Interested and Related Parties - continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31,			
	2015			
	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others(2)	Jointly-owned associates or investees
Interest revenues from loans to the public	-	-	12	-
Interest expenses for deposits from the public	-	-	(4)	-
Total interest revenues (expenses), net	-	-	8	-
Non-interest financing revenues	-	-	-	-
Operating and other expenses	-	(50)	(3)	-
Total	-	(50)	5	-

C. Remuneration and other benefits payable to interested parties (by the banking corporation and its investees)

	For the year ended December 31,			
	2015			
	Officers[1]		Others(2)	
	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries
Interested party employed by or on behalf of the corporation	42[3]	14	-	-
Board member not employed by or on behalf of the corporation	8	13	-	-
Other interested party not employed by or on behalf of the corporation	-	-	3	5

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.
(3) Of which: Short-term employee benefits: NIS 28 million (2014- 34; 2013 - 25); post-employment benefits NIS 7 million (2014- 7; 2013 - 3); share-based payment: NIS 7 million (2014- 10; 2013 - 5).

	2014				2013			
	Interested parties			Related parties owned by the banking corporation	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others(2)	Jointly-owned associates or investees	Controlling shareholders	Officers[1]	Others(2)	Jointly-owned associates or investees
	-	-	8	-	-	-	6	-
	-	(1)	(9)	-	-	-	(1)	-
	-	(1)	(1)	-	-	-	5	-
	-	-	1	1	-	-	-	-
	-	(58)	(3)	-	-	(40)	(3)	-
	-	(59)	(3)	1	-	(40)	2	-

	2014				2013			
	Officers[1]		Others(2)		Officers[1]		Others(2)	
	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries
	[3]51	14	-	-	[3]33	14	-	-
	7	13	-	-	7	14	-	-
	-	-	3	5	-	-	3	3

Note 35 - Information Based on Nominal Data - the Bank

(NIS in millions)

	As of December 31	
	2015	2014
Total assets	196,620	186,156[(1)]
Total liabilities	184,913	175,522[(1)]
Total shareholders' equity	11,707	10,634[(1)]

	For the year ended December 31,		
	2015	2014	2013
Nominal net profit	1,158	1,105[(1)]	1,087[(1)]

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Corporate Governance, Audit, Other Information about the Bank and its Management and Appendixes to the Financial Statements

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Corporate governance and audit

Board of Directors and management

Board of Directors

The Bank's members of the board of directors, their principal occupation, and other directorships as of the publication date of these financial statements are presented below:

Moshe Vidman, Chairman[(1)(2)]	
Membership of Board of Directors' committees	Credit - Chairman, Risk Management - Chairman
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(3)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	2.8.2010
Education	Undergraduate degree - Economics and Political Science, Hebrew University, Jerusalem. MBA (Financing), Hebrew University, Jerusalem.
Current occupation	Chairman of the Board of Directors, Moshe Vidman Ltd. (owner) Volunteer service: Member, Executive Board of the Jerusalem Foundation (since 2000); Member, Board of Trustees of the Hebrew University in Jerusalem (since 1995); Chairman, Hebrew University Assets Ltd. (from 2001 to January 31, 2016).
Previous occupation (in past 5 years, other than current occupation)	Board member of Bank Leumi Le-Israel Ltd.; Partner Communications Ltd.; Israel Corporation Ltd.; ICL Ltd.; Dead Sea Works Ltd.; Rotem Amfert Negev Ltd.; Melisaron Ltd.; Elrov Real Estate and Hotels Ltd.; Rosebud Ltd.; Yafora Tavori Ltd.; Ofer Investments Ltd.; Dash Apex Holdings Ltd.; CABM Ltd.; Ofer Development and Investments Ltd.; Ofer Sachaf Ltd.; Ofer Bros. Investments Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Bros. Holdings Properties Ltd.; Ofer Centers Ltd.; Ofer Commercial Centers Ltd.; Hof Almog Eilat Ltd.; AABM Ltd.; Ofer Bros. Engineering and Development Ltd.; Ofer Nazareth Industrial Properties Ltd.; Mivnei Oferim Ltd.; Melisa Ltd.; CID Israeli Investments and Development Company Ltd.; Mistletoe Holding BV Ltd.; Ofer Investment Development Energy and Management Ltd.; Ofer Investment Energy Sources Ltd.; Herbert Samuel 10 (Management) Ltd.; Ofer Vacatins Tourism Ltd.; Ofer Bros. Holdings (1989) Ltd.; Melifar Shopping Malls Ltd. (in voluntary dissolution); Ofer Commercial Centers Management Maof Ltd. (in voluntary dissolution); Neot Hof Almog 1990 Ltd.; Residence Towers Ltd.; Carmeli - Yuliad Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) Serves as Chairman of the Bank Board of Directors as from December 1, 2012.
(3) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Zvi Efrat[1]	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	24.1.1995
Education	LL.B. - Hebrew University, Jerusalem; Attorney
Current occupation and in the past 5 years	Senior Partner, J. Gurnitzki & Co. law firm, Board member, Efrat Smith Trust Company; Board member, Efrat Legal Services
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.

(2) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Sabina Biran	
Membership of Board of Directors' committees	Audit, Risk Management, Remuneration
External Board member as defined in Proper Banking Conduct Directive 301	Yes
External Board member as defined in the Companies Law	No
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	27.2.2012
Education	Undergraduate degree in Political Science and Economics, Haifa University; MBA, Harriett-Watt University; MA studies in Political Studies and International Relations, Tel Aviv University.
Current occupation	Owner and Co-CEO of MVP-B Ltd.
Previous occupation (in past 5 years, other than current occupation)	Chairman, Tel Aviv Tourism NGO; Chairman, Chem Nir Ltd. Board member: Leumi Partners Underwriting Ltd.; Raphael; HaPhoenix Gemel Ltd.; HaPhoenix Insurance Ltd,; Fox Wiezel Ltd. Board member: Shufersal Ltd. (until December 8, 2015)
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Ron Gazit	
Membership of Board of Directors' committees	Risks Management
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	14.12.2003
Education	Undergraduate degree (LLB) Law degree, Attorney – Tel Aviv University
Current occupation	Founder of Ron, Gazit, Ruthenberg & Co. - law firm; Board member, Gazit Ruthenberg Trust Company; R. Gazit Attorney (2002)
Previous occupation (in past 5 years, other than current occupation)	Founder and Manager, Ron, Gazit, Ruthenberg & Co. - law firm; Board member, Gover Radio Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Avi Ziegelman	
Membership of Board of Directors' committees	Audit - Chairman; Risk Management, Remuneration - Chairman
External Board member as defined in Proper Banking Conduct Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	19.9.2007
Education	BA in Accounting and Economics – Tel Aviv University, MA in Business Economy (Finance) – Tel Aviv University; CPA
Occupation (in past 5 years)	Financial consultant and Board member, Currently serves as Board member of: Ultra Equity Investments Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Avraham Zeldman[(1)]	
Membership of Board of Directors' committees	Risks Management Committee, special committee to review past lending for certain borrowers.
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(2)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	26.2.2015
Education	Studied Statistics and Economics, Business Administration at Haifa University (not eligible for degree)
Current occupation	Currently serves as Chairman of the Board of Directors of Fox Wiezel Ltd. (since 2012); Board member of the following companies: A. Zeldman Management Ltd.; Liliot Ltd.; Liliot Bakery Ltd.
Previous occupation (in past 5 years, other than current occupation)	Chairman of the Board of Directors: Bank Leumi LeMashkantaot Ltd.; Leumi Partners Underwriting Ltd.; Leumi Partners Research Ltd.; Leumi Start Ltd.; Leumi Start Management (2000) Ltd. Board member: Paz Oil Ltd.; Partner Communications Ltd.; Electra Consumer Goods 1970 Ltd.; Fox Wiezel Ltd. (2008-2011); Super Pharm Ltd.; Avgol Industries Ltd.; Technorov Ltd.; Archimedes Global Cyprus; Apac Leumi Inc.; Apax Leumi Partners; Keshet Broadcasting Ltd.; Food Love Capital Ltd.; CEO, Leumi Partners Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.

(2) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Nahshon Yoav-Asher	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	Yes
Start date in office as member of the Bank's Board of Directors	27.2.2012
Education	Academic, undergraduate degree in Economics and Accounting, Tel Aviv University; MBA (specialized in Strategy), Hebrew University, Jerusalem
Current occupation	VP, Finance and Business Development; Central Bottling Company Ltd. (Coca Cola) Board member: Neviot Teva HaGalil Ltd. Dairy Manufacturers Association Ltd. (in voluntary dissolution), Tavor Winery (2005) Ltd., Keshet Broadcasting Ltd., Mira Trading Ltd., TURK TUBORG BIRA VE MALT, SANAYII A.S (Turkey), PAZARLAMA A.S TUBORG (Turkey), INTERNATONAL DAIRIES CORPORATION B.V. (Holland) AL BREWERIES B.V (Holland), UNITED ALBANIAN BREWERIES SH.P.K (Albania), GHG (USA).
Previous occupation (in past 5 years, other than current occupation)	Chairman of the Board of Directors, Neviot Teva HaGalil Ltd.; Chairman of the Board of Directors, Dash Apex Holding Ltd., Board member of Meshek Tzuriel Dairy Ltd., Meshek Tzuriel Distribution Ltd., Mey Galil Ltd., Central Bottling Company Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Mordechai Meir	
Membership of Board of Directors' committees	Audit Committee, special committee to review past lending for certain borrowers.
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	24.12.2008
Education	BA in Accounting and Economics – Tel Aviv University; CPA.
Current occupation	CEO,. Meirav Managers Ltd.; Board member of the following companies: Ofer Investments Ltd.; Melisaron Ltd,; Melisa Ltd.; C.A.B.M. Ltd.; Ofer Bros. Foreign Investments Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Centers Ltd.; Ofer Bros. Engineering and Development Ltd.; Mistletoe BV; Ofer Bros. Holdings (1989) Ltd.
Previous occupation (in past 5 years, other than current occupation)	British Investments Ltd., Bney Moshe Karaso Ltd. (Karaso Real Estate Ltd.), Ofer Commercial Centers Management Maof Ltd. (in voluntary dissolution), Electric Wires (Properties) Ltd. (in voluntary dissolution), Mey Dal Properties Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

Avraham Neuman	
Membership of Board of Directors' committees	Audit, Remuneration, Risks Management Committee, special committee to review past lending for certain borrowers.
External Board member as defined in Proper Banking Conduct Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	11.4.2013
Education	PhD in Mathematics from Hebrew University, Jerusalem
Current occupation	Professor of Mathematics, Hebrew University, Jerusalem; Board member of: A. Neuman Investments Ltd.; A. Neuman Ltd.; NAE HOLDINGS LTD; BIDORBUY.COM; TLD HOLDINGS LTD.
Previous occupation (in past 5 years, other than current occupation)	-
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Gideon Sitterman	
Membership of Board of Directors' committees	Remuneration, Audit, Credit
External Board member as defined in Proper Banking Conduct Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	07.07.2009
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA.
Current occupation	Chairman and owner of Pninush Ltd.
Previous occupation (in past 5 years, other than current occupation)	CEO, Kal Construction Ltd.; Director General, Ministry of Transportation and Road Safety; Board member, Camor Ltd., Chairman, Port of Ashdod
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Liora Ofer	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	Board member of Ofer Investments Group companies as listed below, including Ofer Investments Group companies which (directly and indirectly) hold Bank shares.
Start date in office as member of the Bank's Board of Directors	23.1.2006
Education	High school – HaReali HaIvri Haifa
Current occupation	Chairman, Melisaron Ltd.; Chairman, Ofer Investments Ltd. Board memberships: Oro Investments Ltd.; Oro Consulting and Management Ltd.; Helidor Entrepreneurs Ltd.; Ramat Aviv Mall Ltd.; Ofer Bros. Holdings (1989) Ltd.; Ofer Sachaf Ltd.; Ofer Bros. Property Holdings Ltd.; Hof Almog Eilat Ltd.; AABM Ltd., Mivnei Oferim Ltd.,Ofer Development and Investments Ltd.; Ofer Industrial Properties (Nazareth) Ltd., Ofer Commercial Centers Ltd., Ofer Commercial Centers Ltd., CID Israeli Investments and Development Company Ltd.; Neot Hof Almog (1990) Ltd.; Carmeli Yuliad Ltd.; Herbert Samuel 10 (Management) Ltd.; Ofer Investments Energy Sources Ltd.; Ofer Investment Development Energy and Management Ltd.
Previous occupation (in past 5 years, other than current occupation)	Business and corporate management in real estate, investments and other sectors, including Board memberships as listed above.
Family member of another interested party in the corporation?	Daughter of Mr. Yuli Ofer (RIP), sister of Mr. Doron Ofer and cousin of Mr. Eyal Ofer
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quota specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Jonathan Kaplan	
Membership of Board of Directors' committees	Risks Management Committee, special committee to review past lending for certain borrowers.
External Board member as defined in Proper Banking Conduct Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	12.5.2011
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA; graduate degree in Political Science and National Security, Haifa University; National Security College, Tel Aviv.
Current occupation	Economic Advisor Board member: Amir Agricultural Marketing and Investments Ltd.; Central Bottling Company Ltd.; International Breweries Ltd.; PharmUp Marketing (1966) Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member: Solbar Industries Ltd.; Vilar International Ltd.; Clal Biotechnology Industries Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Osnat Ronen	
Membership of Board of Directors' committees	Credit, Audit, Remuneration Committee, special committee to review past lending for certain borrowers.
External Board member as defined in Proper Banking Conduct Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	23.10.2013
Education	Undergraduate degree in Mathematics and Computer Science, Tel Aviv University. MBA (Financing), Tel Aviv University.
Current occupation	Board member of Partner Communications Ltd.; Fox Wiesel Ltd.; Academic Track, Management College (volunteer Board member); Yisum R&D Corporation of the Hebrew University (volunteer Board member); Perion Network Ltd. (Board member as from December 31, 2015); Founding Partner of Firewind PE.
Previous occupation (in past 5 years, other than current occupation)	Partner, Viola Private Equity. Board member of: Amiad Water Systems Ltd.; Aeronautics Ltd.; Orad High-tech Systems Ltd.; Matomi Media Group Ltd.; Degania Silicon Ltd.; Audiocodes Ltd.; D-Pharm Ltd.; Advisor to Liquidnet Israel.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Yossef Shachak	
Membership of Board of Directors' committees	Credit, Audit, Remuneration
External Board member as defined in Proper Banking Conduct Directive 301	Yes
External Board member as defined in the Companies Law	No
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	26.4.2010
Education	Academic, Undergraduate degree in Accounting, Hebrew University, Jerusalem; CPA
Current occupation	Accounting and Financial Advisor to corporations and Boards Board member: Tafron Ltd.; Yogi Consulting and Investments Ltd. - controlling shareholder; Shachak & Co. Assets Ltd. - shareholder; Member, Public Council of the Accounting Standards Board; HaBima National Theater (external Board member).
Previous occupation (in past 5 years, other than current occupation)	Member, Audit Committee of Bank of Israel; Board member, Dash Provident Fund Management Ltd., Board member of Elul Tamarind Ltd., Board member of Psagot Investment House Ltd., Peleg Nia Ltd..Academic Track of the Management College.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

During 2015, the Bank's Board of Directors held 26 plenary meetings, of which one via telecom. During this period there were also 66 meetings of Board committees and 5 Board member workshops.

The permanent Board committees are: Audit Committee, Risks Management Committee, Credit Committee and Remuneration Committee.

Presented below are changes during 2015 and through publication of these financial statements:

At the Board meeting held on January 19, 2015, the Board resolved to convene an extraordinary General Assembly of shareholders which took place on February 26, 2015, with the agenda including appointment of Mr. Avraham Zeldman as Board member of the Bank. On the same date, the General Assembly of Bank shareholders approved the appointment of Mr. Avraham Zeldman as Board member of the Bank.

On March 16, 2015, the Bank's Board of Directors approved the appointment of Mr. Avraham Zeldman as a member of the Risks Management Committee and the appointment of Mr. Gideon Sitterman as a member of the Board of Directors' Credit Committee. On the same date, Mr. Gideon Sitterman concluded his office as a member of the Risks Management Committee.

On May 18, 2015, the Bank's Board of Directors resolved to appoint Mr. Moshe Vidman as Chairman of the Bank's Board of Directors for a further term in office, from December 1, 2015 through December 31, 2017.

On January 18, 2016, the Bank's Board of Directors resolved that Mr. Vidman's term in office as Chairman of the Board of Directors, as noted above, would be automatically renewed (as from January 1, 2018) annually for an additional one year. The Supervisor of Banks confirmed she has no objection to this renewal.

As for terms of office and employment for the additional employment period, starting on December 1, 2015, these were approved by the Bank's Board of Directors on January 25, 2016 after being approved by the Remuneration Committee and would be brought for approval by the General Assembly of Bank shareholders to be convened on March 8, 2016. For more information on this matter, see Immediate Report dated January 25, 2016, reference 2016-01-017614. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report. For more information about approval of terms of office and employment of the Chairman, see Note 22 to the financial statements.

At the Board meeting held on June 1, 2015, the Board resolved to convene an extraordinary General Assembly of shareholders with the agenda including appointment of Mr. Gideon Sitterman as external Board member of the Bank for a further 3-year term.

On July 7, 2015, the General Assemblyof Bank shareholders approved the appointment of Mr. Gideon Sitterman as an external Board member of the Bank for the further term.

The Board of Directors, at its meeting held on September 7, 2015, resolved to establish a special committee to review past lending for certain borrowers. The committee consists of: Mr. Avraham Zeldman - Chair, Ms. Osnat Ronen, Mr. Yonatan Kaplan, Mr. Avraham Neuman and Mr. Mordechai Meir.

On December 23, 2015, the General Meeting of Bank shareholders approved the Bank's waiver and commitment to indemnify, for Board members and other officers, including the Bank President & CEO and controlling shareholders of the Bank and relatives thereof and for employees.

Board of Directors - continued

The General Meeting of Bank shareholders also approved that the resolution concerning approval of the waiver, with regard to its application to controlling shareholders of the Bank and relatives thereof, would be effective as from September 20, 2015. For more information, see Immediate Report dated December 7, 2015, reference 2015-01-175365. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Board members having accounting and financial qualifications

The Bank's Board of Directors prescribed that at least three directors should have accounting and finance skills. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. Upon publication of these financial statements, there are 11 Board members with accounting and finance skills: Moshe Vidman, Sabina Biran, Avi Ziegelman, Avraham Zeldman, Nahshon Yoav-Asher, Mordechai Meir, Avraham Neuman, Gideon Sitterman, Yonatan Kaplan, Osnat Ronen, Yossef Shachak. The Audit Committee includes 7 Board members having accounting and financial qualifications.

Below are the facts related to each of the directors in the Bank named above, and by virtue of which they are to be deemed having accounting and financial skills:

Moshe Vidman

Undergraduate degree in Economics; Graduate degree in Business Administration; specialized in Financing; served as CEO of two industrial companies; Board member at leading companies for over 25 years; member, Finance Committee and Audit Committee, served as Chairman of multiple companies. Serves as Chairman of the Bank Board of Directors.

Sabina Biran

Undergraduate degree in Political Science and Economics, Haifa University; MBA; served as CEO of two airlines; Board member of private and public companies; formerly - Chairperson of the Board of Directors of an industrial company.

Avi Ziegelman

Undergraduate degree in Accounting and Economics; graduate degree in Business Economy, specialized in Financing; licensed CPA. Provides financial consulting and serves as Board member with different companies. Was Senior Partner, Head of Professional Department with KPMG Somekh Chaykin CPA.

Board of Directors - continued

Avraham Zeldman

Studied Statistics and Economics, Business Administration at Haifa University (not eligible for degree). Serves as Chairman of the Board of Directors of a public company. Has served as executive at Bank Leumi, as Chairman of the Board of Directors at Bank Leumi LeMashkantaot and as CEO at Leumi Partners Ltd. Has served as Board member with private and public companies.

Nahshon Yoav-Asher

Undergraduate degree in Economics and Accounting, Tel Aviv University; MBA (specialized in Strategy); CFO, VP, Finance and Business Development; Board member of private and public companies.

Mordechai Meir

BA in Accounting and Economics – Tel Aviv University; CPA. Worked for nine years at Somekh Chaikin as Senior CPA, board member of public companies, consultant to interested parties in public companies. In recent years: CEO of consulting firm, MERAV Management Ltd. - specialized in consulting to and representation of real estate and financials sectors for major corporations and enterprises.

Avraham Neuman

Professor at Hebrew University, Mathematics Institute (since 1982), Economics Department (1982-1989) and Center for Research into Rationality (since 1990). Has served as Board member of public companies; currently serves as Chairman of the Board of Directors of BIDORBUY.COM.

Gideon Sitterman

CPA, former member of Securities Authority, former Director General of the Ministry of Transportation and Chairman, Port of Ashdod, has extensive accounting, economics and financial knowledge.

Board of Directors - continued

Jonathan Kaplan

Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA; graduate degree in Political Science and National Security; Economic Advisor; Board member of private and public companies; formerly - Income Tax Commissioner.

Osnat Ronen

Undergraduate degree in Mathematics and Computer Science from Tel Aviv University. MBA (Finance) from Tel Aviv University. Has served as Deputy CEO of investment house; Board member of private and public companies.

Yossef Shachak

Undergraduate degree in Accounting, Hebrew University, Jerusalem; CPA; accounting and financial advisor to private and public companies; Board member of private and public companies; previously - President, Institute of Certified Public Accountants in Israel.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with due responsibility. The Board of Directors appreciates the constant efforts of the Bank President & CEO, Bank management and Bank employees to expand the business activities and client base.

Executive Management

The following are Executive Management Forum members as of December 31, 2015 with their title and position:

Eldad Fresher	President & CEO	
Menahem Aviv	Vice-President	Manager, Accounting & Financial Reporting Division and Chief Accountant
Israel Engel	Vice-President	Manager, Retail Division
Ayala Hakim		Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Moshe Lari	Vice-President	Manager, Financial Division and Chief Financial Officer (CFO)
Nisan Levi	Vice-President	Manager, Planning, Operations and Customer Asset Division
Ofir Morad	Vice-President	Manager, Business Banking Division
Dinah Navot	Vice-President	Manager, Marketing, Promotion and Business Development Division
Doron Klauzner	Vice-President	Manager, Risk Control Division and Chief Risk Officer (CRO)
Rita Rubinstein	Vice-President	Manager, Human Resources and Administration Division

Galit Weiser		Chief Internal Auditor; Manager, Internal Audit Division
Maya Feller		Corporate Secretary
Racheli Friedman		Chief Legal Counsel; Manager, Legal Division
Benny Shoukroun		Bank Spokesman

Senior Officers

Below are details of senior officers who are not members of the Bank's Board of Directors:

Eldad Fresher	
Start of term in office	November 3, 2004 (since August 16, 2013 - as Bank President & CEO)
Title	President & CEO
Position held in banking corporation / subsidiary	President & CEO Chairman, Mizrahi Bank Switzerland
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration – Hebrew University, Jerusalem; MBA – Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Financial Division – CFO at Bank Mizrahi Tefahot Ltd.

Menahem Aviv	
Start of term in office	13.4.2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Accounting & Financial Reporting Division and Chief Accountant Board member of Mizrahi Tefahot Issue Company Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Tel Aviv University; MBA – Tel Aviv University; CPA
Business experience (in past 5 years)	Chief Accountant, Bank Mizrahi-Tefahot Ltd.

Israel Engel	
Start of term in office	1.1.2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division Board member of Bank Yahav; Board member of Tefahot Insurance(1)
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Bar Ilan University; MBA (Finance) – Bar Ilan University; CPA
Business experience (in past 5 years)	Manager, Retail Division - Bank Mizrahi-Tefahot Ltd.

(1) Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Galit Weiser[1]	
Start of term in office	7.7.2011
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor; Manager, Internal Audit Division Chief Internal Auditor, Bank Yahav and of the following companies: Etgar, Ne'emanut, Mizrahi Tefahot Issuance, Netzivim, Tefahot Insurance[2].
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University), CPA.
Business experience (in past 5 years)	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

Ayala Hakim	
Start of term in office	1.7.2013
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Mizrahi-Tefahot Technology Division Ltd.; CIO for the Bank
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Political Science – Bar Ilan University; Graduate degree in Business Administration – Bar Ilan University;
Business experience (in past 5 years)	Lt. General, Commander, LOTEM unit of IDF Computer Corps

Moshe Lari	
Start of term in office	November 8, 2009 (in current position - since August 16, 2013)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Division – CFO Chairman, Mizrahi Tefahot Issue Company Ltd.; Board member, Bank Yahav
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting - Hebrew University, Jerusalem; Graduate degree in Business Administration - Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Planning, Operations and Customer Asset Division at Bank Mizrahi Tefahot Ltd.

(1) Pursuant to provisions of Section 146(B) of the Companies Law, -1999 - the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

(2) Etgar – Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.
Ne'emanut – Mizrahi Tefahot Trust Company Ltd.
Mizrahi Tefahot Issuance - Mizrahi Tefahot Issue Company Ltd.
Netzivim – Netzivim Assets and Equipment Ltd.
Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Nisan Levi	
Start of term in office	2.2.2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Planning, Operations and Customer Asset Division Chairman, Tefahot Insurance[1]; Chairman, Mizrahi Tefahot Trustees Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting - Hebrew University, Jerusalem; Graduate degree in Business Administration - Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Manager, Finance Division at Bank Jerusalem Ltd. Manager, Risks Division and Chief Risk Officer at Bank Jerusalem Ltd.

Ofir Morad	
Start of term in office	1.1.2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Business Banking Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration; Graduate degree in Industrial Engineering.
Business experience (in past 5 years)	Deputy Manager, Business Banking Division at Bank Mizrahi Tefahot Ltd.

Dinah Navot	
Start of term in office	1.4.2012
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Promotion and Business Development Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undegraduate degree in Social Work, Tel Aviv University; graduate degree in Journalism and Media, Bar Ilan University; graduate degree in Social Psychology and Sociology, Bar Ilan University
Business experience (in past 5 years)	Strategic business consulting for organizations, VP, Marketing at HOT Communication Systems

(1) Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Racheli Friedman	
Start of term in office	1.1.2015
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel; Manager, Legal Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate Law degree (LL. B) – Tel Aviv University, Graduate Law degree (LL. M) – Tel Aviv University.
Business experience (in past 5 years)	Chief Legal Counsel at the Bank

Maya Feller	
Start of term in office	20.4.1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Corporate Secretary
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree (BA) Humanities – Tel Aviv University
Business experience (in past 5 years)	Secretary, Bank Mizrahi-Tefahot Ltd.

Doron Klauzner	
Start of term in office	8.11.2009
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Risk Control Division, CRO.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration - Bar Ilan University
Business experience (in past 5 years)	Manager, Business Banking Division at Bank Mizrahi Tefahot Ltd.

Rita Rubinstein	
Start of term in office	1.1.2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Resources and Administration Division Chairman, Mizrahi-Tefahot Security Services Ltd.; Chairman, Netzivim Assets and Equipment Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities and Social Sciences – Hebrew University, Jerusalem; MA in Humanities and Social Sciences, Bar Ilan University
Business experience (in past 5 years)	Manager, Human Resources and Administration Division at Bank Mizrahi-Tefahot Ltd.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name	Galit Weiser
Start of term in office	July 2011
Education	CPA;; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Companies Law, -1999 - the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Bank Yahav and Auditor of Bank Mizrahi-Tefahot subsidiaries. The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.

In conformity with Proper Banking Conduct Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2015, the Internal Auditor is eligible to receive 215,468 options to buy Bank shares. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.
The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access - for discharging their office - to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office - unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit.

Considerations in determining the multi-annual audit plan

- Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.
- Risks surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan is prepared by the Internal Auditor, brought up for discussion by the Board of Directors' Audit Committee and sent to the Bank President. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.
Accordingly, on February 1, 2016, the Board of Directors approved the Internal Audit work plan for 2016-2019.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks and the Audit Committee. In addition, the audit refers to issues as requested by Bank management.

Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.

Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.

Accordingly, on February 1, 2016, the Board of Directors approved the Internal Audit work plan for 2016.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With respect to this company, the Internal Auditor verifies that there is proper internal auditing.

At Bank Yahav, a separate audit plan is submitted to the Bank Yahav Board of Directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2015, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
47(1)	6	2.5(2)

(1) Includes 7 full-time positions for audit at Bank Yahav, including outsourcing at Bank Yahav. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 2 full time positions, which are also included.

(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Banking Conduct Directive 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, *inter alia*, in conjunction with annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to this issue. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor received complete access to all the information he needed, in conformity with Proper Banking Conduct Directive307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. In addition, a copy of each report is sent to the CRO, Deputy CRO, Compliance and AML Officer and to the Chief Accountant. Audit reports are submitted in writing. Once every six months, the Auditor submits to members of the Audit Committee the list of all reports submitted during the six-month period. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The significant reports are discussed in a forum headed by the Bank President & CEO or attended by Bank management. The Chairman of the Audit Committee, in consultation with members of the Audit Committee and with reference to recommendations made the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

On August 6, 2015, a semi-annual list was distributed in conjunction with reporting the performance of the Internal Audit work plan for the first half of 2015. This report was discussed by the Audit Committee at its meeting held on September 10, 2015. The summary report of internal audit work for 2015 was issued and is scheduled to be discussed by the Audit Committee close to the issue date of the financial statements. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor realize the objectives of internal auditing.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2015: Salary amounting to NIS 1,138 thousand, bonuses amounting to NIS 610 thousand (including retention bonus amounting to NIS 172 thousand), social benefits amounting to NIS 409 thousand, bonus with respect to share-based payment amounting to NIS 468 thousand and other benefits valued at NIS 82 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2015 amounted to NIS 2,707 thousand. The outstanding balance of loans at standard terms, as of the end of 2015, amounted to NIS 20 thousand. For more information on officer remuneration policy, see Note 22.A.3.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees (1)(2)(3)

(NIS in thousands)

	Consolidated		The Bank	
	2015	2014	2015	2014
For audit activities[4]:				
Independent auditors[5]	7,134	6,973	6,444	6,307
Other independent auditors	1,276	1,100	434	375
Total	8,410	8,073	6,878	6,682
For tax services[6]:				
Independent auditors	-	-	-	-
Other independent auditors	128	183	128	183
For other services:				
Independent auditors[7][5]	1,860	1,678	1,801	1,505
Other independent auditors	367	443	-	-
Total	2,355	2,304	1,929	1,688
Total fees to independent auditors	10,765	10,377	8,807	8,370

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.
(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.
(3) Includes fees paid and accrued.
(4) Audit of annual financial statements and review of interim financial statements.
(5) Includes other independent auditors in overseas branches.
(6) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.
(7) Includes mainly payments for consulting and various services.

Details of senior officer remuneration[1]

(NIS in thousands)

											All of 2015
Details of remunerated party[2]		Remuneration for services rendered[3]						Loans granted at beneficial terms[4]		Loans granted at standard terms
Name	Role	Salary	Bonuses[14]	Social benefit contributions[5]	Share-based payment[6]	Value of additional benefits[7]	Total	Balance as of 31.12.2015	Average term to repayment (in years)	
Moshe Vidman[8]	Chairman of the Board of Directors	2,378	1,475	373	-	123	**4,349**	-	-	27
Eldad Fresher[9]	President & CEO	2,384	1,021	901	1,108	145	**5,559**	-	-	32
Racheli Friedman [10]	Chief Legal Counsel; Manager, Legal Division	1,124	526	1,611	418	74	**3,753**	628	3.7	35
Dina Navot[11]	Deputy President and Manager, Marketing, Promotion and Business Development Division	1,136	552	461	610	81	**2,840**	341	4.1	56
Moshe Lari [12]	Deputy President and Manager, Business Division	1,133	560	411	611	82	**2,797**	993	12.8	22

Details of senior officer remuneration(1) – continued

(NIS in thousands)

Details of remunerated party(2)		Remuneration for services rendered(3)								Loans granted at beneficial terms(4)		Loans granted at standard terms
												All of 2014
Name	Role	Salary	Bonuses (14)	Social benefit contributions(5)	Share-based payment (6)	Value of additional benefits(7)	Total Before supplement to provisions	Supplement to provisions for social benefits, due to changes in salary during the current year	Total	Balance as of 31.12.2014	Average term to repayment (in years)	
Moshe Vidman (8)	Chairman of the Board of Directors	2,344	1,627*	807	-	143	**4,921***	-	**4,921**	499	5.0	-
Eldad Fresher (9)	President & CEO	2,835**	926	977**	1,543	147	**6,428****	2,558	**8,986**	-	-	40
Ofir Morad (13)	Vice President and Manager, Business Banking Division	1,111	430	902	724	88	**3,255**	2,296	**5,551**	764	2.1	208
Dina Navot(11)	Deputy President and Manager, Marketing, Promotion and Business Development Division	1,122	493	463	1,075	74	**3,227**	-	**3,227**	412	4.3	40
Moshe Lari(12)	Deputy President and Manager, Business Division	1,131	515	427	947	83	**3,103**	-	**3,103**	1,029	13.3	69

* Includes a bonus amounting to NIS 1,016 thousand with respect to 2013, approved in 2014. Mr. Moshe Vidman's total pay for 2014 excluding bonus for 2013, amounted to NIS 3,905 thousand.

** Includes salary amounting to NIS 448 thousand and social benefits amounting to NIS 98 thousand with respect to 2013. Mr. Eldad Fresher's total pay for 2014, excluding salary and social benefit differentials with respect to 2013 and supplement to provisions due to changes in salary during the current year, amounted to NIS 5,941 thousand.

Remarks:

(1) Remuneration is in terms of cost to the Bank and excludes payroll tax.

(2) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(3) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(4) The benefit is under the same terms and conditions granted to all Bank employees.

(5) Includes severance pay, pension, study fund, acclimation bonus, paid leave and social security.

(6) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(7) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(8) Mr. Moshe Vidman – On June 17, 2013, the General Assembly of shareholders approved the Bank's contracting of terms of office and employment with the Chairman of the Bank Board of Directors. ("Terms of office and employment of the Chairman of the Board of Directors") Mr. Moshe Vidman serves as Chairman of the Bank Board of Directors, at a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and will terminate on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice. The Chairman will be eligible to receive for his work a monthly salary amounting to NIS 180 thousand, linked to the Consumer Price Index. The Chairman will also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments will be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas. The Bank provides to the Chairman of the Board of Directors a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors. Upon termination of the Chairman's employment, the Bank will pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank will also pay an acclimation bonus equal to 6 monthly salaries plus social benefits. In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he will be paid additional amounts as specified in the employment agreement - subject to conditions stated in the employment contract. Upon termination of the Chairman, the Bank will provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank will also release the study fund to the Chairman. All other terms of office and employment of the Chairman of the Board of Directors were listed in an Immediate Report dated April 24, 2013, reference number 2013-01-044368 (hereinafter: "The immediate report about terms of office and employment of the Chairman of the Board of Directors") This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

On January 25, 2016, the Bank's Board of Directors, after receiving approval by the Remuneration Committee dated January 20, 2016, resolved to approve the terms of office and employment of Mr. Moshe Vidman as Chairman of the Bank's Board of Directors in conformity with the approved employment agreement (hereinafter: "the additional employment agreement"). The employment term according to the additional employment agreement is from December 1, 2015 through December 31, 2017 and will be automatically renewed, every year, for one additional year - all subject to provisions of the additional employment agreement (hereinafter: "the additional employment term"). As of the signing date of the financial statements, the terms of office and employment of the Chairman of the Board of Directors for the additional employment term are yet to be approved by the General Meeting of Bank shareholders. In conformity with these terms, the Chairman of the Board of Directors would be entitled to monthly salary at NIS 220 thousand. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 13.33% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (5% for provident fund and 8.33% for severance pay). The Bank also contributes, on behalf of the Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing three months' advance notice to the other party.

During the notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the notice period in which the Bank waived the Chairman's work - in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

The Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries (hereinafter: "Acclimation bonus").

The additional employment agreement also specifies that the acclimation bonus payable to the Chairman of the Board of Directors, as noted above, is the sole acclimation bonus for which the Chairman of the Board of Directors would be eligible upon termination of their employment pursuant to the additional employment agreement and the Chairman of the Board of Directors will not be eligible for an acclimation bonus with respect to their employment period pursuant to the previous employment agreement.

The Bank will pay to the Chairman of the Board of Directors the retirement bonus hew is eligible for pursuant to the previous employment agreement, with respect to employment from December 1, 2012 through November 30, 2015, equal to 150% of the Chairman's final salary pursuant to the previous employment agreement, multiplied by the number of years of service pursuant to the previous employment agreement - namely three years.

It is hereby clarified that the Chairman is not eligible to a retirement bonus pursuant to the additional employment agreement and that payment of the retirement bonus to the Chairman upon termination of his employment would be in conformity with his eligibility for a retirement bonus pursuant to the previous employment agreement as noted above.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 (hereinafter: "the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay aw, gross (hereinafter: "Statutory severance pay"), then the aforementioned retirement bonus (pursuant to the previous employment agreement), in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the retirement bonus amount together be lower than the statutory severance pay - then the Bank will make up the difference up to the statutory severance pay. As for bonuses, see details in section 14 below.

(9) Mr. Eldad Fresher – On June 17, 2013, the Bank Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. On May 4, 2014, the Bank’s Board of Directors approved, after approval by the Remuneration Committee, the Bank President's terms of office and employment. On June 10, 2014, these terms of office and employment were approved by the General Meeting of Bank shareholders. The Bank President's terms of office and employment were set in conformity with the Bank's remuneration policy as adjusted for Bank of Israel regulations, as described above. This policy was approved by the Remuneration Committee, the Bank’s Board of Directors and the General Meeting of Bank shareholders. Below is a summary of the terms of office and employment of the Bank President & CEO - as listed in Appendix B to a report issued by the Bank on May 4, 2014, reference 2014-01-056838 (hereinafter: "The immediate report about terms of office and employment of the Bank President & CEO") The employment contract is for an unlimited term and either party may terminate it for any reason by three months' advance notice to the other party. For his work, the Bank President is entitled to monthly salary at NIS 185 thousand, fully linked to the Consumer Price Index, based on the CPI known on August 16, 2013, and to benefits. The Bank provides to the Bank President a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Bank President & CEO, to a study fund at 7.5% of his salary. Upon termination of the Bank President & CEO's employment, at any time and for any reason, the Bank will pay him a retirement bonus equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank will also issue a letter releasing all contributions made pursuant to the individual employment contract signed by the Bank and by the Bank President & CEO, with regard to the latter's work for the Bank prior to their appointment as President & CEO. The Bank will also release to the President his study fund and will also pay, in exchange for non-competition, an acclimation bonus equal to 6 monthly salaries plus social benefits. Furthermore, upon termination of the Bank President's employment, he will be paid other amounts as described in the employment contract, subject to conditions specified in the employment contract. The Bank President committed that for six (6) months after termination of his position and employment with the Bank, for any reason, he will not directly or indirectly act or engage in or on behalf of any other banking corporation and would not serve as officer of or on behalf of any entity which competes with Bank business. According to the employment contract, the Bank President will be eligible for a monetary bonus and equity-based remuneration, in conformity with the Bank's remuneration policy as it may be from time to time, with a mix and subject to conditions as approved. All other terms of office and employment of the President were listed in Appendix B to an Immediate Report dated May 4, 2014, reference number 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report. As for bonuses, see details in section (14) below.

(10) Ms. Racheli Friedman – employed by the Bank under an individual employment contract effective since January 1, 2015 for an unspecified term. Ms. Friedman's monthly salary is linked to the Consumer Price Index. Upon termination of her employment at the Bank, Ms. Friedman is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever as an officer. Furthermore, Ms. Friedman will be eligible to have the Bank, upon termination of her employment, release to her all amounts accumulated on her behalf in the various funds. Notwithstanding the above, Ms. Friedman shall not be eligible for an acclimation bonus and release of amounts accumulated on her behalf in the various funds in case of termination of her employment under extraordinary circumstances, as specified in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions set forth in the employment contract. For officer remuneration policy, see Note 22.A.3 to the financial statements. As for bonuses, see details in section 14 below.

(11) Ms. Dina Navot – employed by the Bank under an individual employment contract effective since March 5, 2012 for an unspecified term. Ms. Navot's monthly salary is linked to the Consumer Price Index. Upon termination of her employment at the Bank, Ms. Navot is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Ms. Navot will be eligible to have the Bank, upon termination of her employment, release to her all amounts accumulated on her behalf in the various funds. Notwithstanding the above, Ms. Navot shall not be eligible for an acclimation bonus and release of amounts accumulated on her behalf in the various funds in case of termination of her employment under extraordinary circumstances, as specified in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions set forth in the employment agreement. For officer remuneration policy, see Note 22.A.3 to the financial statements. As for bonuses, see details in section 14 below.

(12) Mr. Moshe Larry – employed by the Bank under an individual employment contract effective since November 8, 2009 for an unspecified term. Mr. Larry's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Larry is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Larry is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Larry shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stated in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions set forth in the employment agreement. For officer remuneration policy, see Note 22.A.3 to the financial statements. As for bonuses, see details in section (14) below.

(13) Mr. Ophir Morad – employed by the Bank under an individual employment contract effective since January 1, 2014 for an unspecified term. Mr. Morad's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Morad is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Morad is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Morad shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stated in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions stated in the employment contract. For officer remuneration policy, see Note 22.A.15 to the financial statements. As for bonuses, see details in section 14 below.

(14) **Bonuses**

1. Bonus for 2015

1.1. Bonus to Chairman of the Board of Directors

Pursuant to terms of employment and office of the Chairman of the Board of Directors, the Chairman is entitled, *inter alia*, to an annual monetary bonus equal to 9 monthly salaries at most, based on the eligibility formula approved in conjunction with approval of their terms of employment and office and subject to threshold conditions based on return on equity, overall capital adequacy ratio and core capital adequacy ratio for the Bank for the bonus year. The Chairman of the Board of Directors will also be entitled to an additional deferred bonus, soon after approval of the Bank's 2015 financial statements, equal to up to 9 monthly salaries, subject to threshold conditions based on return on equity and in accordance with an eligibility formula for the deferred bonus - as specified in Appendix II to the Immediate Report concerning approval of terms of employment and office of the Chairman of the Board of Directors.

The eligibility formula for the annual bonus, approved as specified above, is based on three (3) quantitative, company-wide targets which account for up to 85% of the maximum potential bonus: return on equity (weighted at 55% of the maximum potential bonus), ratio of return on Bank share to return of banking index shares and operating efficiency ratio (each weighted at 15% of the maximum potential bonus). The annual bonus formula also includes a discretionary bonus component, accounting for up to 15% of the maximum potential bonus.

With respect to 2015, the Chairman of the Board of Directors is entitled, based on quantitative benchmarks in the eligibility formula for the annual bonus - as specified in Appendix II to the Immediate Report about approval of the terms of employment and office of the Chairman of the Board of Directors, to a bonus amounting to NIS 518 thousand. The Remuneration Committee and the Board of Directors also approved the award of the discretionary component in full (15% of the maximum potential bonus), amounting to NIS 246 thousand, with respect to 2015. Approval of the discretionary component of the annual bonus is subject to approval by the General Assembly of shareholders.

With regard to the aforementioned deferred bonus, the Chairman is eligible to receive a bonus equal to 3.9 salaries with respect to 2013-2015, amounting to NIS 711 thousand.

1.2. Bonus for the President & CEO

According to the remuneration plan of the President & CEO, as specified in the Immediate Report about terms of employment and office of the President & CEO, he will be entitled - in addition to equity-based remuneration awarded to him and the eligibility for which is also conditional - to a monetary bonus capped at NIS 1,517 thousand plus CPI linkage differentials, based on the CPI known on August 16, 2013 ("the maximum monetary bonus") for each calendar year between

2014-2016. This is subject to meeting threshold conditions during the bonus year, based on rates of return on equity, overall capital adequacy ratio and core capital adequacy ratio at the Bank for the bonus years.

Eligibility of the President & CEO to the monetary bonus is contingent, as noted, on threshold conditions and is based on four (4) quantitative, company-wide benchmarks: return on equity, return on Bank share compared to the comparison benchmark, operating efficiency ratio and average ratio of deposits to loans, whose aggregate weighting is 85% of the maximum monetary bonus, as well as a qualitative bonus weighted at 15% of the maximum monetary bonus. For details of threshold conditions for eligibility for the monetary bonus, conditions for eligibility for the monetary bonus, the Board of Directors' authority to reduce the monetary bonus and provisions with regard to reimbursement of the monetary bonus – see Appendix II to the Immediate Report about terms of employment and office of the President & CEO. The annual bonus to which the President & CEO is eligible with respect to quantitative benchmarks for 2015 is NIS 793 thousand. The Bank’s Board of Directors also approved, after approval by the Remuneration Committee, an amount of NIS 228 thousand with respect to the qualitative benchmark for 2014.

1.3. Bonus for other officers and for the Internal Auditor

On June 19, 2014, the Bank’s Board of Directors approved, after approval by the Remuneration Committee, and in line with the officer remuneration policy, approved on June 10, 2014 by the General Meeting of shareholders, a remuneration plan for officers concerning, *inter alia*, award of equity-based remuneration and monetary remuneration ("variable remuneration"). Eligibility for variable remuneration is contingent on threshold conditions, identical to those listed in the Immediate Report about terms of employment and office of the President & CEO and is also based on four (4) quantitative company-wide benchmarks, identical to those in the remuneration plan of the President & CEO, whose aggregate weighting is 80% of the maximum monetary bonus, as well as two qualitative benchmarks weighted at 10% each. The qualitative benchmarks refer to achievement by each officer of individual targets specified for them at the start of the year, as well as to evaluation of the officer's overall performance, at the discretion of the President & CEO - to be brought for approval by the Remuneration Committee and by the Board of Directors. As for the Chief Internal Auditor, evaluation of her achievement of her individual targets and evaluation of her performance would be by the Audit Committee, after receiving the recommendation of the Chairman of the Board of Directors - to be brought for approval by the Remuneration Committee and by the Board of Directors. The Bank’s Board of Directors, after approval by the Remuneration Committee and after receiving evaluations by the President & CEO and by the Chairman of the Board of Directors, as the case may be, as specified above, approved the eligibility rate of the officers and the Chief Internal Auditor with respect to the qualitative benchmarks (which also apply to the eligibility rate with respect to this component in equity-based remuneration) for 2015.

2. Bonus for 2014

2.1. Bonus to Chairman of the Board of Directors

Pursuant to terms of employment and office of the Chairman of the Board of Directors, the Chairman is entitled, *inter alia*, to an annual monetary bonus equal to 9 monthly salaries at most, based on the eligibility formula approved in conjunction with approval of their terms of employment and office and subject to threshold conditions based on return on equity, overall capital adequacy ratio and core capital adequacy ratio for the Bank for the bonus year. The Chairman of the Board of Directors will also be entitled to an additional deferred bonus, soon after approval of the Bank's 2015 financial statements, equal to up to 9 monthly salaries, subject to threshold conditions based on return on equity and in accordance with an eligibility formula for the deferred bonus - as specified in Appendix II to the Immediate Report concerning approval of terms of employment and office of the Chairman of the Board of Directors.

The eligibility formula for the annual bonus, approved as specified above, is based on three (3) quantitative, company-wide targets which account for up to 85% of the maximum potential bonus: return on equity (weighted at 55% of the maximum potential bonus), ratio of return on Bank share to return of banking index shares and operating efficiency ratio (each weighted at 15% of the maximum potential bonus). The annual bonus formula also includes a discretionary bonus component, accounting for up to 15% of the maximum potential bonus. In 2014, the Chairman of the Board of Directors received an award amounting to NIS 1,016 thousand with respect to 2013, including the discretionary component in full (amounting to NIS 246 thousand), after approval by the General Meeting of shareholders on June 10, 2014, in line with approval by the Remuneration Committee and by the Board of Directors.

With respect to 2014, the Chairman of the Board of Directors is entitled, based on quantitative benchmarks in the eligibility formula for the annual bonus - as specified in Appendix II to the Immediate Report about approval of the terms of employment and office of the Chairman of the Board of Directors, to a bonus amounting to NIS 365 thousand. The Remuneration Committee and the Board of Directors also approved the award of the discretionary component in full (15% of the maximum potential bonus), amounting to NIS 246 thousand, with respect to 2014. The discretionary component of the annual bonus was approved by the General Meeting of Bank shareholders.

2.2 Bonus for the President

According to the remuneration plan of the President & CEO, as specified in the Immediate Report about terms of employment and office of the President & CEO, he will be entitled - in addition to equity-based remuneration awarded to him and the eligibility for which is also conditional - to a monetary bonus capped at NIS 1,517 thousand plus CPI linkage differentials, based on the CPI known on August 16, 2013 ("the maximum monetary bonus") for each calendar year between 2014-2016. This is subject to meeting threshold conditions during the bonus year, based on rates of return on equity, overall capital adequacy ratio and core capital adequacy ratio at the Bank for the bonus years.

Eligibility of the President & CEO to the monetary bonus is contingent, as noted, on threshold conditions and is based on four (4) quantitative, company-wide benchmarks: return on equity, return on Bank share compared to the comparison benchmark, operating efficiency ratio and average ratio of deposits to loans, whose aggregate weighting is 85% of the maximum monetary bonus, as well as a qualitative bonus weighted at 15% of the maximum monetary bonus. For details of threshold conditions for eligibility for the monetary bonus, conditions for eligibility for the monetary bonus, the Board of Directors' authority to reduce the monetary bonus and provisions with regard to reimbursement of the monetary bonus – see Appendix II to the Immediate Report about terms of employment and office of the President & CEO. The annual bonus to which the President & CEO is eligible with respect to quantitative benchmarks for 2014 is NIS 721 thousand. The Bank's Board of Directors also approved, after approval by the Remuneration Committee, an amount of NIS 205 thousand with respect to the qualitative benchmark for 2014.

2.3 Bonus for other officers and for the Internal Auditor

On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee, and in line with the officer remuneration policy, approved on June 10, 2014 by the General Assembly of shareholders, a remuneration plan for officers concerning, *inter alia*, award of equity-based remuneration and monetary remuneration ("variable remuneration"). Eligibility for variable remuneration is contingent on threshold conditions, identical to those listed in the Immediate Report about terms of employment and office of the President & CEO and is also based on four (4) quantitative company-wide benchmarks, identical to those in the remuneration plan of the President & CEO, whose aggregate weighting is 80% of the maximum monetary bonus, as well as two qualitative benchmarks weighted at 10% each. The qualitative benchmarks refer to achievement by each officer of individual targets specified for them at the start of the year, as well as to evaluation of the officer's overall performance, at the discretion of the President & CEO - to be brought for approval by the Remuneration Committee and by the Board of Directors. As for the Chief Internal Auditor, evaluation of her achievement of her individual targets and evaluation of her performance would be by the Audit Committee, after receiving the recommendation of the Chairman of the Board of Directors - to be brought for approval by the Remuneration Committee and by the Board of Directors. The Bank's Board of Directors, after approval by the Remuneration Committee and after receiving evaluations by the President & CEO and by the Chairman of the Board of Directors, as the case may be, as specified above, approved the eligibility rate of the officers and the Chief Internal Auditor with respect to the qualitative benchmarks (which also apply to the eligibility rate with respect to this component in equity-based remuneration) for 2014.

Transactions with controlling shareholders and related parties

The Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, which the Committee ratified on February 21, 2016, as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A. Transaction for sale of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of supervisory capital, after adjustments and deductions, as defined in Proper Banking Conduct Directive 202 (hereinafter - "supervisory capital"). This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

B. Transaction for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of supervisory capital, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to .75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

C. Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of supervisory capital.

D. Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of supervisory capital. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" - a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as specified in Proper Banking Conduct Directive no. 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of supervisory capital, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of supervisory capital. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated with it, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

"**Group of controlling shareholders**" - a controlling shareholder, as defined in the Securities Law, together with corporations affiliated there with, as the term "affiliated person" is defined in Proper Business Conduct of Directive 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** - receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "affiliated person" of the controlling shareholder, and which is not a company controlled by it, shall be deemed to be a material transaction if, consequently, total deposits from that company, on a consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank will be calculated based on the most recent annual financial statements published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as stated above)** - a transaction in securities or in foreign currency where the annual commission charged with respect there to does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statement published by the Bank prior to the transaction date.

D. **Other transactions** - any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total supervisory capital.

Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market terms" - terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest . Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Banking Conduct Directive 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions there with; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Banking Conduct Directive 312 does not apply - as for Indebtedness transactions to which Proper Banking Conduct Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Banking Conduct Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

					December 31, 2015
Group of controlling shareholders	Total balance sheet credit	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or its affiliated party	Total indebtedness[(1)]
Wertheim Group and private companies it controls	-	-	-	-	-
Relatives of Wertheim Group	10	8	-	-	18
Total - Wertheim Group	10	8	-	-	18
Ofer Group and private companies it controls					
Relatives of Ofer Group	77	72	12	14	175
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	77	78	-	-	155
Israel Chemicals Ltd.	-	-	-	-	-
Carmel Ulpinim Ltd.	-	-	-	-	-
Total - Ofer Group	154	150	12	14	330

					December 31, 2014
Group of controlling shareholders	Total balance sheet credit	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or its affiliated party	Total indebtedness[(1)]
Wertheim Group and private companies it controls	1	-	-	-	1
Relatives of Wertheim Group	13	33	-	-	46
Total - Wertheim Group	14	33	-	-	47
Ofer Group and private companies it controls					
Relatives of Ofer Group	257	56	22	14	349
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	91	75	-	-	166
Israel Chemicals Ltd.	-	11	-	-	11
Carmel Ulpinim Ltd.	-	-	-	2	2
Total - Ofer Group	348	142	22	16	528

(1) Indebtedness as defined in Proper Banking Conduct Directive 312, after set off of allowed deductions.

B. Deposits

		December 31, 2015
Group of controlling shareholders	Balance as of December 31, 2015	Highest balance in 2015
Wertheim Group and private companies it controls	-	-
Relatives of Wertheim Group and private companies it controls	3	19
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	3	5
Total - Wertheim Group	6	24
Ofer Group and private companies it controls	6	30
Relatives of Ofer Group and private companies it controls	103	241
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	-	-
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.		
Israel Corporation Ltd.	195	501
Israel Chemicals Ltd.	78	78
Carmel Ulpinim Ltd.	1	10
Total - Ofer Group	383	860

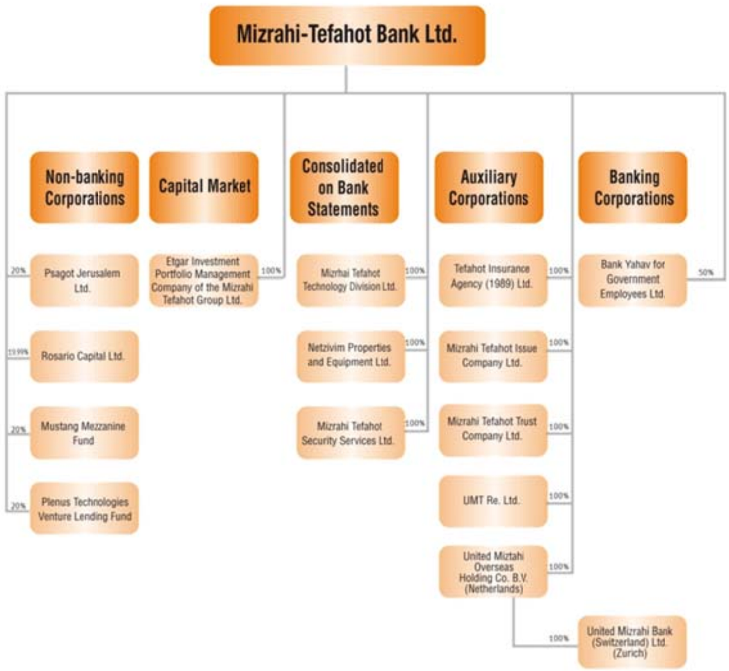
		December 31, 2014
Group of controlling shareholders	Balance as of December 31, 2014	Highest balance in 2014
Wertheim Group and private companies it controls	1	1
Relatives of Wertheim Group and private companies it controls	2	12
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	3	3
Total - Wertheim Group	6	16
Ofer Group and private companies it controls	14	22
Relatives of Ofer Group and private companies it controls	105	239
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	-	-
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	4	4
Israel Corporation Ltd.	492	1,410
Israel Chemicals Ltd.	3	89
Carmel Ulpinim Ltd.	3	3
Total - Ofer Group	621	1,767

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Other information about the Bank and its management

Major holding structure of Mizrahi Tefahot Group

Holding Structure - Major Companies [1]:



For further information about organizational changes in the Group, see Note 15 to the financial statements.

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[1] The Bank has holdings in other companies which are not material to Bank operations.

See Note 15 to the financial statements for details.

Controlling shareholders

To the best of the knowledge of the Bank and the Board of Directors, the holding interests of controlling shareholders of the Bank, as of December 31, 2015, are as follows:

	Holder	No. of shares	Share of equity and voting rights
Wertheim Group	M.W.Z. (Holdings) Ltd.(1)	20,585,785	8.88
	F & W (Registered Partnership)(2)	30,172,844	13.01
	Total Wertheim Group	50,758,629	21.89
Ofer Group	C.A.B.M. Ltd.(3)	7,138,594	3.08
	L.A.B.M. (Holdings) Ltd.(4)	7,814,717	3.37
	A.A.B.M. Ltd.(5)	15,313,435	6.60
	Ofer Investments Ltd.(6)	14,461,819	6.24
	Ofer Sahaf Ltd.(7)	7,477,642	3.22
	Total Ofer Group	52,206,207	22.51
	Total holding stake of controlling shareholders	102,964,836	44.40
Total shares issued by the Bank		231,880,324(8)	100.00%

(1) A private company owned (100%) by Mr. Moshe Wertheim.

(2) A registered partnership held by Mr. Moshe Wertheim (1%) and by M.W.Z. (Holdings) Ltd (99%).

(3) A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Holdings Properties Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd. Ofer Holdings Properties Ltd. is a private company wholly-owned and controlled by Ofer Holdings (1989) Ltd. ("Ofer Holdings"). Ofer Holdings is a private company held by the Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (Holdings) Ltd. (33.33%) (see also footnotes 4 and 6 below).

(4) A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd. ("L.I.N."), which is a private company owned by a foreign trust whose main benefactor, with regard to Bank shares, is Mr. Eyal Ofer (95%) and a foreign-resident company (5%). The foreign trust has given Mr. Eyal Ofer power-of-attorney to vote at General Meetings of L.I.N. with regard to issues concerning the control permit of the Bank, Bank shares directly and indirectly owned by L.I.N., appointment of Board members at the Bank and all matters concerning the Bank. The power-of-attorney gives Eyal Ofer full authority to act on these matters as he sees fit.

(5) A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Holdings (see also footnote 3 above).

(6) A private company, the shares of which are held by Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (33.33%) (see also footnote 4 above).
Prior to the death of Mr. Yuli Ofer RIP, he together with his children, Liora Ofer and Doron Ofer, were the controlling shareholders of Ofer Investments and Ofer Holdings. Upon the death of Mr. Yuli Ofer RIP on September 11, 2011, his shares of Ofer Investments and Ofer Holdings became part of his estate. Accordingly, the controlling shareholder of Ofer Investments and Ofer Holsings is the Mr. Yuli Ofer RIP estate, through the temporary estate administrators - subject to decisions by the Court.
On December 18, 2013, the Family Affairs Court issued an order to execute the will of Mr. Yuli Ofer RIP. As of this date, the Yuli Ofer RIP estate continues to hold the shares held by Mr. Yuli Ofer RIP. On January 30, 2014, Doron Ofer and his children appealed the aforementioned verdict to the Tel Aviv-Yafo District Court as an Appelate Court for Civil Appeals. On November 16, 2015, the District Court unanimously rejected the aforementioned appeal and the order to execute the will became conclusive. Shares of Ofer Investments and Ofer Holdings would be transferred to Ms. Liora Ofer, in conformity with the aforementioned will, subject to instructions by the Court.

(7) A private company wholly-owned and controlled by Ofer Investments Ltd.

(8) Excludes 2,500,000 dormant shares bought back by the Bank in 2009.

Shareholder agreements

Between A.A.B.M. Ltd., C.A.B.M. Ltd., and L.A.B.M. (Holdings) Ltd. as the first party (hereinafter: ("Ofer Group") and between Feinberg-Wertheim (Registered Partnership) as the other party ("Wertheim Group") for cooperation in exercising rights associated with Bank shares ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Ofer Group

On January 17, 2013 the Bank received notice from Ofer Investments Ltd. (hereinafter: "Ofer Investments") with regard to a permit dated January 15, 2013 given by the Governor of the Bank of Israel, for holding control and means of control over the Bank by Ofer Group (as defined in the control permit - i.e. Eyal Ofer, Doron Ofer, Liora Ofer and the estate of Juli Ofer RIP managed by temporary estate administrators, Attorneys Zvi Efrat and Reuven Bachar) and by Wertheim Group (i.e. Mr. Moshe Wertheim), pursuant to the Banking Act (Licensing), 1981 (hereinafter: "the new permit"). On this matter, see report issued by the Bank on January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

Through the receipt date of the new permit, Ofer Group held Bank shares (controlling interest shares and non-controlling interest shares) through Ofer Investments and its subsidiaries, and through L.I.N. (Holdings) Ltd. (hereinafter: "L.I.N") and its subsidiary. Upon receiving the new permit, the outline of change in the Bank holding structure came into effect, referring only to holding of Bank shares by Ofer Investments, to separation of holding of controlling interest shares of the Bank from other operations of Ofer Investments, including holding of real estate properties (hereinafter: "new structure change"). The new structure change includes transfer of controlling interest shares of the Bank (indirectly held by Ofer Investments) to be indirectly held by a sister company of Ofer Investments, Ofer Holdings (1989) Ltd. (hereinafter: "Ofer Holdings"). Resulting from the new structure change, Ofer Investments would continue to hold ordinary Bank shares (not part of the controlling interest), directly and through a subsidiary. For more information see footnote 6 to the above table showing control of the Bank Group.

New co-operation agreement between individuals of Ofer Group and corporations under their control -

As Ofer Investments informed the Bank, upon receiving the new permit and implementing the new structure change, a new co-operation agreement became effective between individuals of Ofer Group and corporations under their control, who hold Bank shares directly and indirectly. The new co-operation agreement replaces previous agreements between the parties. In the aforementioned agreement, the parties agree that relations with regard to Bank holdings, control over the Bank and management rights between Juli Group (recipients of the control permit from family of Juli Ofer RIP, including temporary or permanent administrators of his estate, pending distribution of shares owned by Juli Ofer RIP) (hereinafter: "Juli Group") and L.I.N (in which Eyal Ofer has power of attorney to act with regard to Bank business), would be shared on 50-50 basis, hence the Board member quota of Ofer Group would be equally divided between L.I.N and Juli Group, and no decisions would be made by Ofer Group with regard to any Bank-related matter without mutual consent of L.I.N and July Group. For more information, see section 3 in the Bank's Immediate Report dated January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

The notice from Ofer Investments to the Bank further indicated that Ofer Investments and Ofer Sahaf Ltd. (who would continue to hold non-controlling interest Bank shares) have committed, in the new co-operation agreement, to act pursuant to provisions of the control permit, as these may be from time to time, if applicable to them, including to only exercise voting rights with respect to Bank shares they hold in accordance with the decision made with regard to exercise of voting rights with respect to controlling interest Bank shares. Moreover, these companies committed that, should their shares be offered in future to the public, their aforementioned commitment would be reflected in the prospectus to be made public. For more information see footnote 6 to the above table showing control of the Bank Group.

Wertheim Group

On February 17, 2013, Mr. Moshe (Mosie) Wertheim informed the Bank that he had gifted to his children his shares and holdings of corporations holding Bank shares which are part of the controlling interest in the Bank, M.W.Z (Holdings) Ltd. and F&W (Registered Partnership), as follows: to Mr. David Wertheim - 63% of his holding stake, and to Ms. Drorit Wertheim - 37% of his holding stake.

According to Mr. Moshe Wertheim's notice to the Bank, this transfer of shares is subject, inter alia, to obtaining a control permit from the Governor of the Bank of Israel, pursuant to the Banking Act (Licensing), 1981.

On January 18, 2015, the Bank received notice from Mr. Wertheim, whereby a letter, received on January 15, 2015 from the Supervisor of Banks at the Bank of Israel, indicates that for legal and procedural reasons, the Supervisor of Banks is unable to recommend that the Governor of the Bank of Israel grant the requested permit. However, since receiving said letter, negotiations are ongoing with Bank of Israel to arrange this matter. As of the report date, Mr Moshe (Mosie) Wertheim would continue to hold the control permit at the Bank.

Fixed assets and installations

For more information about fixed assets, see Note 16 "Buildings and equipment" on the financial statements.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" in the Report of the Board of Directors and Management.

Real estate

The total area of real estate owned by the Bank or leased by the Bank for its use, as of December 31, 2015, is 125.8 thousand m^2, as provided in the table below:

Type of property[1]	Gross area, thousand m^2, as of December 31, 2015		
	Owned	Leased	Total area
Branches throughout Israel	34.0	33.3	67.3
Offices and storage	38.9	7.5	46.4
Unused property with potential future use[2]	10.5	1.0	11.5
Properties not in use and designated for sale or to be vacated [3]	0.3	0.3	0.6
Total	83.7	42.1	125.8

(1) The Bank owns a total area of 17.8 thousand m^2 used as covered parking space, which is not included in the table above.

(2) Of the assets not in use and serving for potential future use, 8.1 thousand m^2 is undergoing refurbishment and adaptation for Bank needs (including 7.2 thousand m^2 in a building in Lod) and the remainder is leased to other parties.

(3) All properties not in use and designated to be sold or vacated are in selling stages and should be delivered in 2016. Notice to vacate leased properties has been delivered to landlords.

It is Bank policy to only hold real estate actually needed or expected to be needed in the future. The Bank regularly reviews the extent, attributes and location of required areas, based on its business plan and nation-wide branch deployment plan, and makes the required adjustments.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2015 amounts to NIS 915 million, compared to NIS 944 million at the end of 2014.

No unusual investment by the Bank in fixed assets and installations is expected in 2016.

Intangible assets

The Bank Group has data base entries of clients and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot - No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun, "Market Leader in Mortgages Tefahot", "Israel No.1 Du Credit Hypothecaire En Tefahot" and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".
For details of investments and expenses with regard to IT, see the Report of the Board of Directors and Management.

Human Resources

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

	2015					
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Total for the Group
Number of full-time equivalent positions as of December 31, 2015	5,040	61	5,101	923	23	6,047
Number of full-time employees based on monthly average	4,982	60	5,042	895	24	5,961

	2014					
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Total for the Group
Number of full-time equivalent positions as of December 31, 2014	4,883	58	4,941	898	25	5,864
Number of full-time employees based on monthly average	4,837	57	4,894	900	26	5,820

Below is the distribution of number of positions in the Group by operating segment[(1)]:

	As of December 31	
Operating segment	2015	2014
Households	3,639	3,626
Private banking	123	123
Small business	1,087	991
Commercial banking	245	256
Business banking	544	537
Financial management	409	331
Total	6,047	5,864

(1) Including Head Office employees that are allocated pro-rata to the various segments.

Human resource management

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Services to individual employees, from recruiting through ongoing services and up to retirement.
- The organizational development and training department, in conjunction with development of the Bank's human resources in all aspects.

The Bank invests in development of its staff and constant improvement of the professional and personal skills of Bank employees and managers. This is achieved through training events throughout employee tenure at the organization, from starting on the job, through promotion and development tracks and a range of training programs for banking, personal and managerial skills, emphasizing deployment of new and existing regulation. In addition, the Bank encourages achievement and expansion of academic education of its employees, as well as broadening their horizons via external workshops.

In 2015, the training center continued deployment of the Learning Organization concept - where managers and employees regard learning as a continuous activity, which also takes place at their work station, implementing the manager development concept - which regards unit managers as organizational change leaders who are responsible for the professional skills of their employees through personal mentoring.

The Bank's Organizational Development and Training Division applies diverse tools to develop intra-organizational communication channels in general and conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year.

Training expenses in 2015 amounted to NIS 10 million, compared to NIS 9 million in the previous year.

In 2015, all Bank employees attended training (in-person and online), for a total of 31,191 training days, compared to 31,365 training days in 2014.

For more information about human resource management, see the Corporate Governance Report on the Bank website.

www.mizrahi-tefahot.co.il >> information about Mizrahi-Tefahot >> investor relations >> financial statements

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees, as stated below), which are expressed in two employee organizations:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employee's Association as a "bargaining unit" for negotiation and signing agreements.

C. **Bank Mizrahi Tefahot Ltd. Technology Division Employee Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. **Bank Yahav employee representatives** - empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

Employment terms of employees represented by the Bank's Employee Association

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Salary agreements

No salary agreement has been signed yet for the period 2005-2015 (except with former Tefahot employees, for whom a salary agreement was signed for the period through March 31, 2005). In late 2015,an economic arbitration process was launched between the Bank and the employee union, to discuss the demands made by the employee union for these years. The Bank records, as necessary, appropriate provisions.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank - see chapter Individual Employment Contracts below) are updated based on three key components:

- Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank.
- Components updated in accordance with changes in the Consumer Price Index.
- Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employee Association. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate. In a reality of low single-digit inflation, these factors lead to an increase in real salaries, despite the absence of an update to the wage agreement.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank and in the bonus component, about which Bank management decides each year and these decisions are approved by the Board of Directors. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Special collective bargaining agreement

On April 11, 2006, the Employee Association and the Bank signed an agreement to end the labor dispute, declared with regard to the merger with Bank Tefahot ("special collective bargaining agreement"). Provisions of the special collective bargaining agreement effective through December 31, 2010

On September 16, 2009, a special collective bargaining agreement was signed with the employee union, whereby the special collective bargaining agreement signed in 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

Highlights of the agreement, as for the old agreement, are as follows:

- Extension of the "employment constitution" through December 31, 2015.
- Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
- Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
- The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
- Enactment of a voluntary retirement program by up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
- Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

  The financial statements include an actuarial provision in accordance with directives of the Supervisor of Banks, to cover the expected cost of early retirement of all Bank employees. See Note 22 to the financial statements for details.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On June 16, 2014, a wage agreement was concluded with the Manager Council for the period 2013-2017. The agreement primarily includes a gradual increase in management fee by 2% per annum for 2014-2017, linkage of vacation pay rates to the CPI, inclusion of vacation pay as part of the basis for contribution to study fund, extension of the agreements on other matters and ensuring labor unrest is avoided through December 31, 2017.

Individual employment contracts

The labor agreements signed in the Bank in the years 1995, 1998, 2003 and 2006, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

On March 2, 2015, a collective bargaining agreement was signed by management of the Technology Division, the company's employee representation and the labor union, with the following highlights:

- Termination of the labor dispute and strike called by the labor union on January 26, 2012 and elimination of all sanctions. This concluded all labor disputes at the Company.
- Arrangement of sub-contractor issue.
- Arrangement of trial period in tenure track.

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors), as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat).

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector - which is responsible for management of the Bank's financial assets and liabilities - and the capital market trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services. The Division is also responsible for the Group's international operations and for private banking, inter alia, through private banking units in Israel and through affiliates and subsidiaries overseas.

Information Technology Division - in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Regulation 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Planning, Operations and Customer Asset Division – The division includes the Process Engineering Division, responsible, *inter alia*, for back-office banking operations and the Planning & Economics Division, which is also responsible for supervision and control of subsidiaries. The division is also responsible for Bank insurance business (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse. The division also includes the departments which provide pension consulting and financial consulting services offered to clients. The division is also responsible for subsidiaries operating in the capital market, including: Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd., Mizrahi-Tefahot Trust Company Ltd. and the provident fund sector.

Risks Control Division – this division includes the various risks control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Resources and Administration Division – this division includes management of human resources, training, logistics, administration and improved efficiency (including properties, construction and procurement) as well as security (including the cash and courier center).

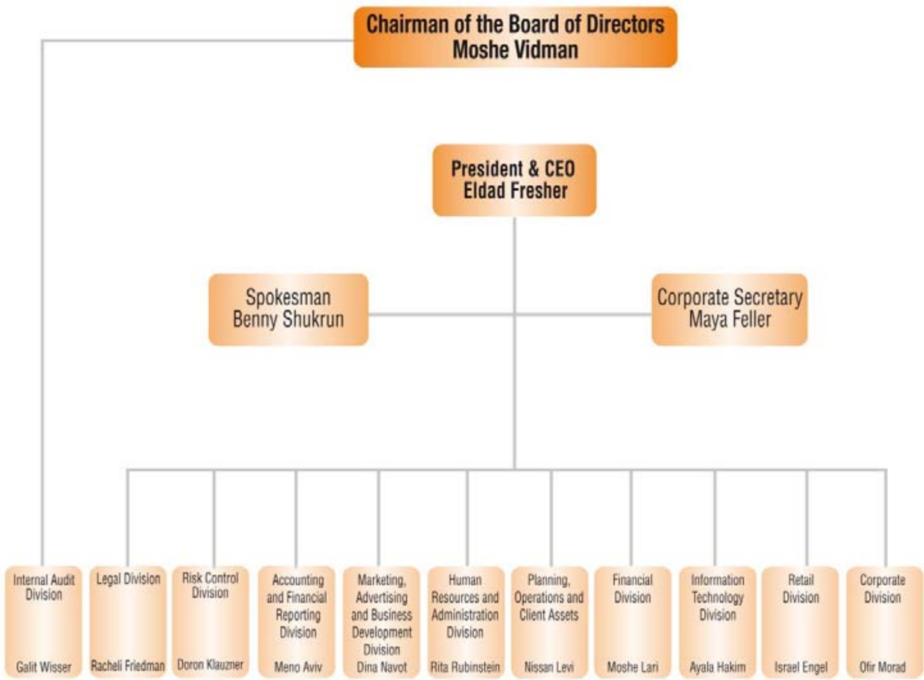
Marketing, Advertising and Business Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Accounting & Financial Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Organizational Chart of the Bank



Significant Agreements

A. Employment agreements signed with the Employee Council, the Manager and Authorized Signatory Association and the Technology Division Employee Committee. For more information see chapter "Human Resources" above.

B. Indemnification letters. For more information see Note 26.C. (4-9) to the financial statements.

C. Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL, for joint issue of Visa, MasterCard and Diners Club debit cards, including Bank-branded cards, to be distributed by the Bank to its clients. For more information see Note 26.C.13 to the financial statements.

D. Bank Yahav was awarded a tender for budget loans to Government employees. For more information see chapter "Major investees" in the Report by the Board of Directors and Management.

E. Bank Yahav contracting with an international company for creating a core banking system and receiving outsourced services for such system. For more information see chapter "Significant developments in IT" in the Report by the Board of Directors and Management.

F. In late 2015, the Bank started cooperation with Leumi Card on marketing of Leumi Card credit cards to Bank clients.

G. Directed loans to Ministry of Construction and Housing eligible borrowers. For more information see chapter "Household segment" in the Report of the Board of Directors and Management.

H. Small business tender. For more information see chapter "Small businesses segment" in the Report of the Board of Directors and Management.

I. Tender for management of deposit funds for overseas workers. For more information see chapter "Household segment" in the Report of the Board of Directors and Management.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2011, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US tax payers.

According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.

Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US Source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to reduce tax avoidance by US persons by using accounts outside the USA and to increase tax revenues payable by US persons to the USA and increasing transparency and reporting of assets and balances of clients identified as US persons to the US IRS.

The Bank acted to implement this legislation and avoided providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA.

On April 6, 2014, the Bank received the Supervisor of Banks' letter concerning preparation for application of FATCA provisions; these require banking corporations, *inter alia*, to set policy and procedures as to the manner of application, to be approved by the Board of Directors; to appoint a responsible person and to establish a dedicated team to co-ordinate application of these provisions, reporting directly to management and providing updates to management and to the Board of Directors on the progress made, at a frequency to be determined.

The steps to be taken with regard to clients of the banking corporation in the course of such preparations would be taken with due consideration to the bank's obligations to its clients and after diligent review of the circumstances.

The letter also stipulates the cases in which a refusal to provide bank services would be considered a reasonable refusal with regard to the Banking Act (Customer Service), 1981.

On June 30, 2014, an international agreement for implementation of FATCA directives was signed by the State of Israel and by US authorities, in 1IGA format, which governs, *inter alia*, the transfer of information to US tax authorities, through the Israeli Tax Authority - which would receive information from financial institutions in Israel. The agreement also stipulates concessions, including exemption from reporting for various institutions or for accounts whose attributes indicate very low risk of tax evasion. The statutory provisions in Israel for application of this agreement have yet to be enacted by the State of Israel.

The Bank has been implementing the relevant statutory provisions in accordance with schedules specified by legislation, based on the signed agreement and in conformity with directives of the Supervisor of Banks and of the Ministry of Finance.

OECD directive concerning information exchange about financial accounts

In October 2014, the State of Israel announced that it would adopt the directive concerning automated information exchange about financial accounts for tax purposes (the OECD Common Reporting Standard) by end of 2018. The directive would be implemented by an agreement between the relevant authorities in the countries which apply the directive (such as the inter-state agreement between Israel and the US authorities).

According to the directive, financial institutions would be required to conduct an identification procedure for clients who are residents of foreign countries - and provide information about their accounts to the tax authority. The appropriate legislation changes to Israeli law for application of this procedure have yet to be made.

On March 16, 2015, the Supervisor of Banks issued directives to banking corporations on management of risk arising from cross-border client activities.

According to the Supervisor's directive, the Board of Directors of a banking corporation should review and revise its policy and ensure that management updates its procedures and controls accordingly, with regard to risk inherent in cross-border activities of clients of the banking corporation, with emphasis on tax liabilities outside the country in which the account has been opened, with reference to issues such as: Classification of high-risk clients due to cross-border activities; countries where client activities would be considered as countries at risk etc.

According to the directives, banking corporations are required to obtain from clients a statement with regard to countries in which they are tax residents, certification that they have reported their income in conformity with applicable law and an undertaking to notify them of any change in tax liability. They are also required to obtain a waiver of confidentiality from the client vis-a-vis overseas authorities. Banking corporations should specify procedures and a ranking of authority levels for approval of account opening, management and conducting transactions defined as associated with potential cross-border risk.

The Supervisor further determined that refusal to provide banking services would constitute reasonable refusal with regard to the Banking Act (Customer Service), 1981 in these cases:

- Opening an account for a client who does not cooperate with the banking corporation as required for implementation of the latter's policy and procedures with regard to risk associated with cross-border activities.
- Continued provision of banking services to an existing account, including funds withdrawal and change of owners or beneficiaries, in a manner which exposes the banking corporation to the risk of being considered an accomplice in bypassing foreign legislation applicable to the client.

The effective start date of these directives is March 16, 2015. As for client funds in existing accounts: For accounts classified as "at risk", the required actions should be completed by December 31, 2015 and for all other accounts - by December 31, 2016.
The Bank is acting in conformity with the Supervisor's directives and schedules specified in the directive and has revised its policies accordingly.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation (EMIR).

In 2012, rules were published governing application of the Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in the USA in 2010 (hereinafter: "the reform").

The reform is designed, inter alia, to mitigate credit risk in trading on the OTC derivatives market, systemic risk arising there and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

The reform classified financial entities by scope of trading and imposes obligations based on this classification (swap dealer, MSP - Major Swap Participants etc.)

The rules specified in the reform apply to US entities and to non-US entities which conduct transactions of significant volume (as defined in the reform) with US entities. In view of the reform, such entities would not be able to conduct transactions involving the types of derivatives included in the Act with other financial entities (even those not subject to the Act, such as the Bank) - unless they comply with provisions of the Act.

Provisions of the Act gradually became effective, and today many transactions in OTC derivatives with US banks and with banks which are Swap Dealers or MSPs, require compliance with provisions of the Act, including with regard to settlement.

The Bank is preparing to apply the relevant provisions of the reform so as to be able to conduct transactions involving OTC derivatives with entities subject to the Act.

Concurrently with the Dodd Frank reform launched in the USA, a similar reform was launched in Europe - European Market Infrastructure Regulation ("EMIR")

The EMIR reform, similar to the Dodd Frank reform, calls for mandatory central settlement, increased collateral requirements and reporting of executed transactions to designated data repositories.

The EMIR reform applies to all financial entities in the EU and therefore should impact Bank operations involving derivatives - since the Bank has significant business with European banks. Some provisions of this reform are already in effect (such as: reporting requirements) and the settlement requirement is expected to be phased in mid-2016 and the Bank would also be required to settle transactions, in line with schedules stipulated by law, whenever the counter-party to a transaction would be subject to regulation.

The Bank is preparing to apply the provisions of this reform which apply to it.

Deficit Reduction and Tax Burden Modification Act (Legislative amendments), 2012

The amendment to the Act, dated August 2012, stipulates that the rate of social security payable by employers would gradually increase from 2013 to 2015, by the stipulated steps, for the portion of salary in excess of 60% of the average salary nationwide.

The amendment to the Act became effective on January 1, 2013.

On January 20, 2014, a proposed bill was approved whereby the social security fees charged would be increased in January 2014 and in January 2015 to 6.25% and 7.25%, respectively. This is in lieu of 7.00% and 7.50%, respectively, as specified in August 2012. The social security fee as from January 2016 would be 7.50%, as stated in the law. The expected effect of the amendment to the Act on the Bank's financial statements is not material.

Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013

On February 18, 2013, the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013 were made public. The regulations include provisions governing the adaptations to be made in order to ensure accessibility for handicapped persons. "Accessibility" is defined in the Act as "possibility of reaching a location, moving and finding your way around it, beneficial use of a service, obtaining information provided or produced in conjunction with or in relation with a location or service, use of facilities and participation in programs and activities taking place there - all in a manner promoting equality, dignity, independence and safety". The required adaptations cover multiple areas, such as: installation of assistive facilities and provision of assistive services to ensure accessibility of the offered service for handicapped persons and making information accessible in various manners specified in the regulations. Services provided online should also be made accessible.

The regulations further stipulate that the security screening process at the location where service is provided must not prevent handicapped persons from reaching the public location, entering it and receiving the service in a manner that is equal, dignified and discrete, independent and safe.

Wherever the Bank holds an event open to the general public, the Bank is also liable for such accessibility adaptations.

The regulations come into effect six months after they are made public, but in fact they would gradually come into effect through 2018.

Handling risk associated with operations involving entities on the international sanction list with regard to the crisis in the Ukraine

According to a letter from the Supervisor of Banks dated April 7, 2015, the Bank is required to incorporate into risks management at the Bank the risks associated with operations prohibited by sanctions imposed by the USA and the EU with regard to the crisis in the Ukraine. The Bank is required, *inter alia*, to set policy and procedures and to take steps to identify and avoid transactions with exposed parties.

Following this letter, the Bank has specified that no activity would be allowed with entities included in the aforementioned sanctions list, other than if approved by the Compliance Department, after verifying with the Legal Division that such activity is not in violation of the sanctions. The Bank's IT systems have been adapted to allow for controls over implementation of this decision.

Change in VAT rate and corporate tax rate

On September 3, 2015, the Knesset Finance Committee decided to decrease the VAT rate to 17%, effective as from October 1, 2015 (the profit tax and payroll tax rates applied to financial institutions decreased accordingly).
On September 3, 2015, the Minister of Finance announced a decrease in the corporate tax rate to 25%, effective as from January 1, 2016. On January 5, 2016 (after the balance sheet date), the Knesset Plenum approved, by second and third vote, the lowering of the corporate tax rate.
For more information see Note 8 to the financial statements.

Proposed legislation

From time to time, proposals for legislative amendments are brought before the Knesset on various matters, some of which could have an impact on the businesses of banking corporations, including the Bank. However, as of the date of the financial statements, these proposals are in different stages of legislation, they may be modified and there is no certainty as to when they will be completed or if they will eventually become provisions of binding legislation.

Supervisor of Banks

As from July 15, 2015, Dr. Hedva Bar is the Supervisor of Banks, replacing Mr. David Zaken.

Circulars and Public Reporting Regulations

Earlier publication date of financial statements

On September 29, 2013, the Supervisor of Banks issued a circular with regard to bringing forward the publication date of financial statements. According to the circular, in order to align the publication dates of financial statements of banking corporations in Israel with those in the USA, and in order to allow users of the financial statements to obtain information about the bank's financial standing and operating results sooner, the annual financial statements of a banking corporation which heads a banking group would be published no later than two months after the balance sheet date, and quarterly financial statements would be published no later than 45 days after the balance sheet date.
The 2015 annual report and annual reports thereafter would be made public no later than two months after the balance sheet date.
Quarterly financial statements – in 2016 shall be published no later than 45 days after the balance sheet date.
The Bank applies the schedules as specified for its issued financial statements and is preparing to issue its annual financial statements for 2016 by the specified schedule.

Reporting on operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directive concerning operating segments. The regulation is designed to enhance the ability to compare operating segments of different banks and to make this information more useful. As from the public report as of March 31, 2016, the disclosures required pursuant to this regulation would be provided. Transition provisions specified require preliminary disclosure in the public report for 2015. Along with publication of the update to the reporting regulations, the Supervisor of Banks issued a Q&A file on application of the directive concerning supervisory operating segments. On September 10, 2015, the Supervisor of Banks issued a revised Q&A file on this matter See Note 1 to the financial statements for additional information.

"Fast track process for recycling directed loans"

In December 2014, the Supervisor of Banks proposed that banks would join a voluntary fast track process to recycle directed loans, as defined in the Banking Ordinance (Early repayment commission) to borrowers who meet the conditions proposed by the Bank of Israel. The process would run from January 1, 2015 to May 31, 2015. On March 30, 2015, the Ministry of Construction and the Supervisor of Banks announced the extension of this campaign through August 31, 2015; on August 25, 2015, the Ministry of Construction and the Supervisor of Banks announced a further extension of this campaign through December 31, 2015. The Bank has joined this process. The campaign ended on December 31, 2015. For further details see chapter "Household segment" in the "Report of the Board of Directors and Management".

Updated format of public reports by a banking corporation

On April 28, 2015, the Supervisor of Banks issued a circular concerning updated structure of public reports by a banking corporation and by credit card companies. The objectives of this circular include, inter alia: Improve the quality of public reporting by making the information in the public report more useful and accessible; enhance uniformity in presentation of the reports in the banking system; and formulate the format for the public report to be based on leading presentation practices of leading banks in the USA and in Europe. See Note 1.C.6 to the financial statements for additional information.

Unsolicited contact to extend credit to retail clients

On June 23, 2015, the Supervisor of Banks issued a letter to banking corporations, requiring them to refresh procedures and controls with regard to unsolicited contact to extend credit to specific retail clients and to provide their policies and procedures on this matter to the Supervisor of by September 1, 2015. The Bank revised its policy on this matter and on September 1, 2015, the Bank provided its comments to the Bank of Israel, as noted above.

XBRL - a new method for reporting to the Supervisor of Banks

On October 19, 2015, the Supervisor of Banks issued a letter concerning reporting to the Supervisor of Banks - new reporting method.

According to the letter, the Supervisor of Banks decided to adopt the international reporting standard XBRL (eXtensible Business Reporting Language). This standard provides a format for transmission of business information. A key advantage of using this standard is the significant improvement in quality of reported data ensured, *inter alia*, by multiple controls during data production by the reporting entities and during data receiving by the regulator.

According to the letter, the Supervisor of Banks intends to start testing banks' reporting in July 2016, so that reports would be made in the new format by start of 2017.

In conformity with the Bank of Israel requirement, the Bank has submitted to the Supervisor of Banks an extensive work plan on this subject.

Proper Banking Conduct Directives

Proper Banking Conduct Directive 311 concerning "Management of credit risk"

On December 23, 2012, the Supervisor of Banks issued Proper Banking Conduct Directive 311 concerning management of credit risk. On April 28, 2015, the Supervisor of Banks issued a circular which updates provisions with regard to credit risk, an update to Directive 311, which stipulates that banking corporations should specify, in their credit policy, internal restrictions on leveraged loans (as specified in Directive 327 concerning "Leveraged loans") and on extending credit to borrowers which are more highly leveraged than average for the sector, subject to a materiality threshold and to calculation of the leverage level, a specified by the banking corporation. Banking corporations involved in arranging for syndication are further required to refer, in their credit policy, to transactions in the pipeline and are also required to obtain independent assessment of the risk associated with any loan in which they participate - as if they were the originator. The update also includes updates on review of leveraged loans and establishing processes with regard to waiving debt. The provisions of this circular would apply to loans extended as from January 1, 2016. The Bank is preparing to implement this directive.

Proper Banking Conduct Directive 312 "Banking Corporation's Business with Related Parties"

On July 10, 2014, the Supervisor of Banks issued a circular concerning "Banking Corporation's Business with Related Parties" (update to Proper Banking Conduct Directive312). The circular is intended to minimize risk due to transactions between a banking corporation and related parties and to prevent abuse of the banking corporation and action subject to conflict of interest. The directive limits the total indebtedness of related parties of the banking corporation and stipulates that transactions between the banking corporation and related parties would be based on business considerations and at market terms. Following changes made to Proper Banking Conduct Directive 312 above and in order to align disclosure on this matter with US GAAP, on June 10, 2015 the Supervisor of Banks published a circular containing amendments to Public Reporting directives with regard to disclosure of interested and related parties. The start date for compliance with these amendments is January 1, 2015. The Bank is applying this directive and amendments. Application of this directive and amendments has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 329 concerning "Restrictions on provision of housing loans"

On July 15, 2014, the Supervisor of Banks issued a circular with regard to restrictions on provision of housing loans. The circular incorporates the guidelines and limits set by the Supervisor of Banks in recent years on various matters - in a single, binding document. The circular also redefines the term "repayment ratio" and limits the loan amount qualifying for a lower risk weighting, pursuant to Proper Banking Conduct Directive 203, to NIS 5 million. Any loan exceeding this amount would be weighted at 100% for calculation of risk assets. The start date for the different limits is as state din letters from the Supervisor of Banks superseded by the circular. The additional requirements apply to housing loans approved in principle as from the earliest possible date but no later than October 1, 2014.

On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329

"Restrictions on extending housing loans", as well as a Q&A file on this issue. The circular consists of two amendments to the directive:

- Increase to the equity target – the target Tier I capital to risk elements ratio is to include an addition equal to 1% of the housing loan portfolio balance. The equity target would be increased by fixed quarterly steps from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest – the risk weighting of leveraged loans bearing variable interest would be reduced from 100% to 75%.

Following implementation of this directive, the target ratio of Tier I capital to risk elements is expected to increase by 0.1%, according to data as of the reporting date, in each of the eight quarters as from the implementation date of this directive, for a total increase of 0.8% when implementation is complete. This target may change based on actual data for the housing loan portfolio and for total risk assets.

The start date for compliance with the capital target is January 1, 2017. Banking corporations should increase their capital target by fixed quarterly rates from January 1, 2015 to January 1, 2017. The Bank is applying the provisions of this regulation.

Proper Banking Conduct Directive no. 221 "Liquidity coverage ratio" and Proper Banking Conduct Directive no. 342 "Liquidity risk management"

On September 28, 2014, the Supervisor of Banks issued Proper Banking Conduct Directive 221 "Liquidity coverage ratio".

The regulation adopts Basel III recommendations with regard to liquidity coverage ratio for the Israeli banking system.

This ratio is designed to improve the ability of liquidity risk profiles of banking corporations to withstand an extreme one-month liquidity scenario. The Basel III directives specify a framework for calculating the liquidity coverage ratio, designed to create uniformity at the international level.

On the same date, the Supervisor also issued amendments to the Public Reporting Directives which include, *inter alia*, required disclosures for Basel Pillar 3 within the Board of Directors' Report and required disclosure of the liquidity coverage ratio in the Note on capital adequacy, liquidity and leverage to the financial statements. Additionally, on September 30, 2014 the Supervisor issued a Q&A file on this new directive.

The current Proper Banking Conduct Directive 342 "Liquidity risk management" has been adapted.

Below are highlights of this new Proper Banking Conduct Directive:

- Definition of the Liquidity Coverage Ratio (LCR) as the ratio between the value of High Quality Liquid Assets (HQLA) to total net cash outflow, under stress conditions.
- Definition of High-Quality Liquid Assets (HQLA) – assets which may be easily and quickly converted into cash at a small loss (or no loss) which meet the specified qualification criteria.
- Definition of cash outflow, net – to be calculated as total movement of liabilities, assets and off-balance sheet operations expected to affect cash flows over a one-month period, using coefficients specified by the Bank of Israel, in line with Basel III recommendations.
- Setting of minimum liquidity coverage ratio – this ratio shall be no less than 100%, i.e. High-Quality Liquid Assets should at least equal total cash outflow, net.

The liquidity coverage ratio shall be regularly used, on a daily basis, for all currencies pooled together as well as separately for foreign currency. The regulation is applied for the Bank as well as on a consolidated basis.

The directive shall be applied as from April 1, 2015, with the minimum liquidity coverage ratio requirement at:

- April 1, 2015 – 60%
- January 1, 2016 – 80%
- January 1, 2017 – 100%

Any value lower than the required ratio shall be immediately reported to the Supervisor, along with a plan for eliminating this gap, as needed. The Bank applies the directives as from April 1, 2015. For more information about liquidity risk at the Bank and about the liquidity coverage ratio - see chapter "Risk" in the "Report of the Board of Directors and Management" and the Bank's Risk Management Report on the Bank website.

Proper Banking Conduct Directive 425 concerning "Annual statements to clients of banking corporations"

On November 19, 2014, the Supervisor of Banks issued a directive with regard to annual statements to clients of banking corporations. The directive includes a requirement for presenting an abbreviated report and a detailed report in a client's online account, as defined in Section 9i(f) of the Banking Act (Customer service), in the wording and format described in addendums to the directive. The reports are to be presented by end of February with regard to data for the current calendar year. The directive is effective as from February 28, 2016 with regard to annual reports for 2015. The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

On June 21, 2015, the Supervisor of Banks issued an amendment to this directive following questions raised during the implementation phase, which required amendments to the regulation and clarifications. The Bank is preparing to apply these amendments.

Proper Banking Conduct Directive no. 432 "Transfer of activities and closing of client account"

On December 15, 2014, the Supervisor of Banks issued an amendment to the directive concerning transfer of activities and closing of a client's account. The amendment is designed to simplify the actions required upon closing an account and transferring activities from one bank to another. The directive adds means of communication which clients may use to obtain information and to file an application to close or to transfer an account. The effective start date of this directive is January 1, 2015, except for certain sections concerning obtaining information, filing an application by other channels and the duration in which the bank is required to close or transfer the account - which became effective on July 1, 2015. The sections concerning the Periodic Report pursuant to Directive no. 425 - which is required by this regulation - would become effective on February 28, 2016. The Bank is preparing to implement this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 218 concerning "Leverage ratio"

On April 28, 2015, the Supervisor of Banks issued a a directive with regard to leverage ratio. The Supervisor of Banks' directive adopts the Basel Committee directives and sets minimum leverage ratio requirements for banking corporations; the Supervisor of Banks may require a specific banking corporation to maintain a higher leverage ratio, should the Supervisor consider that the leverage ratio does not properly reflect leverage at such corporation. Along with the directive, the Supervisor of Banks issued an amendment to Public Reporting Directives with regard to disclosure of the leverage ratio, which added disclosures to the Board of Directors' report and to the financial statements.

For more information see Note 1.C.5 to the financial statements and the Bank's Risk Document.

Proper Banking Conduct Directive 327 concerning "Management of leveraged loans"

On April 28, 2015, the Supervisor of Banks issued a new directive with regard to leveraged loans. This directive was issued concurrently with the amendment to Directive 311 concerning "Credit risk management" and the amendment to Directive323 concerning "Restrictions on financing of equity transactions". The new directive specifies the framework for overall risk management for leveraged loans. The provisions of this directive would apply to loans originated as from January 1, 2016. The Bank is applying this directive.

Proper Banking Conduct Directive 308 concerning "Compliance and compliance function of banking corporations"

On June 3, 2015, the Supervisor of Banks issued the directive with regard to a Compliance Officer. The directive was amended, expanded and adapted to provisions of Proper Banking Conduct Directive s concerning risks management and corporate governance. The new directive clarifies the roles of the Board of Directors and senior management and it includes a chapter listing the areas to be addressed by the compliance function. The start date is January 1, 2016. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 313 "Restrictions on indebtedness of borrowers and groups of borrowers"

On June 9, 2015, the Supervisor of Banks issued an amendment to directives concerning "Restrictions on indebtedness of borrowers and groups of borrowers". This amendment restricts the definition of "capital" to Tier I capital, as defined in Directive 202, thereby making restrictions on extending credit to borrowers and borrower groups more stringent. Furthermore, the restriction at 25% of capital has been made stricter, to be at 15% of capital after this amendment - as recommended by the Basel Committee. The start date for the changes to the directive is January 1, 2016. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 454 concerning "Early repayment of non-housing loan"

On June 21, 2015, the Supervisor of Banks issued an amendment to the directive concerning early repayment of a non-housing loan. The amendment expands the scope of the current arrangement specified in the directive and sets a uniform, transparent mechanism for setting the interest rate used to calculate the capitalization component for non-housing loans. The start date for the changes to the directive is April 1, 2016. The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Banking Conduct Directive 470 concerning "Debit cards"

On June 29, 2015, the Supervisor of Banks issued an amendment to the directive concerning debit cards, which concerns transition of the payment system in Israel to the Europay MasterCard Visa (EMV) standard and implementation of the use of smart cards to reduce potential fraud associated with use of magnetic cards. The directive also amends various aspects related to promoting use of immediate debit cards and stored-value cards. The amendments to the directive are effective as from April 1, 2016, except for some sections concerning immediate debit cards and stored-value cards as well as those concerning the start of use of the EMV standard in debit cards and automated machines, whose effective start date was set at later dates. The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Along with the amendment to the directive, the Supervisor of Banks issued a letter concerning expanded proliferation of immediate debit cards, instructing banks to offer an immediate debit card to clients who open a new current account, subject to provisions of Regulation 422. They are also required to offer an immediate debit card to existing clients by an initiated contact, no later than December 31, 2016. Banks are required to report to the Supervisor of Banks quarterly, as from January 1, 2016, on progress made in immediate debit card proliferation. The Bank is preparing to implement as required.

Proper Conduct of Banking Business directive 301A concerning "Remuneration policy at banking corporations"

On August 13, 2015, the Supervisor of Banks issued a circular containing amendments to the directive concerning remuneration policy at banking corporations. This circular adds a requirement whereby the banking corporation's remuneration policy and remuneration agreements should include provisions whereby any variable remuneration awarded and paid to a key employee would be recoverable for 5 years after the award date, upon fulfillment of recovery criteria to be specified by the banking corporation, to include at least the criteria listed in the circular. As for officers, the circular stipulates that under certain circumstances, the recovery period may be extended by a further two years.

Notwithstanding the foregoing, when total variable remuneration in any given calendar year does not exceed one sixth of the fixed remuneration, it is not mandatory to apply the recovery provisions to this portion of the variable remuneration. The circular further stipulates, inter alia, that the Chairman of the Board of Directors and other Board members may only receive fixed remuneration. The Chairman's remuneration would be set relative to remuneration of other Board members of the banking corporation, considering, inter alia, the extent and complexity of operations of the banking corporation and considering the scope of the position Remuneration of all Board members of the banking corporation, other than the Chairman of the Board of Directors, shall be identically determined and in conformity with determination of remuneration of external Board members pursuant to the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

The Bank is implementing the directives. Application of these directives has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive s 203 and 204 concerning "Capital requirements with respect to exposure to central counter-parties"

On October 22, 2015, the Supervisor of Banks issued a circular concerning capital requirements with respect to exposure to central counter-parties. This circular amends the handling of counter-party credit risk and the internal rating based approach for credit risk (IRB) stipulated in Proper Banking Conduct Directive s 203 and 204.

The new directives would apply to exposure to central counter-parties due to OTC derivatives, transactions involving negotiable derivatives on the stock exchange and transactions for financing of securities.

The key provisions are as follows:

- Bank trading exposure to a Qualified Central Counter-Party (QCCP) would carry a risk weighting of 2%. Should the Bank deposit amounts to the clearinghouse risk fund, the exposure would be weighted in conformity with a formula set forth in the directive.
- Bank trading exposure to a Non-Qualified Central Counter-Party (CCP) would carry a risk weighting as applicable to that counter-party. Should the Bank deposit amounts to the clearinghouse risk fund, such exposure would carry a risk weighting of 1, 250%.

- Exposure for banks who are clients of a clearinghouse member acting as a financial broker which secures their performance – if the bank fulfills the business, operational and legal conditions specified in the directive and the transactions are cleared by a qualified clearinghouse, then such exposure may be regarded as direct exposure to a Qualified Central Counter-Party (the clearinghouse), carrying a risk weighting of 2% or 4%.
- Exposure for banks acting as a clearinghouse member or clients – the capital requirement for such exposure would be the same as for a bilateral transaction, including capital allocation with respect to CVA.
- The treatment of collateral (other than a risk fund) deposited with a central counter-party or with a clearinghouse member has been specified.

The start date for application of these directives is July 1, 2016.

Note that the directive allows the Tel Aviv Stock Exchange to be treated as a Qualified Central Counter-Party through June 30, 2017.

The Bank is preparing to implement these directives.

Bank's credit rating

On January 21, 2016, Standard & Poor's Ma'alot (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook.
The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.
The subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.
The negotiable contingent subordinated notes (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA-.
On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable.

Addendums to financial statements

Addendum I - Revenue and Expense Rates - of the Bank and its Subsidiaries[1]

For the year ended December 31,

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

			2015			2014			2013
	Average balance[2]	interest revenues	Revenue rate	Average balance[2]	interest revenues	Revenue rate	Average balance[2]	interest revenues	Revenue rate
			In %			In %			In %
Interest-bearing assets									
Loans to the public [3]									
In Israel	149,239	[7]4,585	3.07	140,363	[7]5,026	3.58	130,481	[7]5,966	4.57
Outside of Israel	2,665	106	3.98	2,305	103	4.47	2,545	100	3.93
Total	151,904	4,691	3.09	142,668	5,129	3.60	133,026	6,066	4.56
Loans to the Government									
In Israel	288	9	3.13	303	9	2.97	310	9	2.90
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	288	9	3.13	303	9	2.97	310	9	2.90
Deposits with banks									
In Israel	1,745	3	0.17	1,841	8	0.43	1,073	21	1.96
Outside of Israel	427	3	0.70	296	5	1.69	348	21	6.03
Total	2,172	6	0.28	2,137	13	0.61	1,421	42	2.96
Deposits with central banks									
In Israel	20,357	21	0.10	21,614	108	0.50	16,648	170	1.02
Outside of Israel	3,319	8	0.24	1,535	-	-	1,546	2	0.13
Total	23,676	29	0.12	23,149	108	0.47	18,194	172	0.95
Securities loaned or purchased in resale agreements									
In Israel	174	-	-	199	1	0.50	125	1	0.80
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	174	-	-	199	1	0.50	125	1	0.80
Debentures held to maturity and available for sale [4]									
In Israel	11,799	150	1.27	7,294	62	0.85	5,632	118	2.10
Outside of Israel	1,137	17	1.50	1,105	16	1.45	1,249	17	1.36
Total	12,936	167	1.29	8,399	78	0.93	6,881	135	1.96
Debentures held for trading[5]									
In Israel	326	4	1.23	1,149	9	0.78	1,001	17	1.70
Outside of Israel	-	-	-	-	-	-	1	-	-
Total	326	4	1.23	1,149	9	0.78	1,002	17	1.70
Total interest-bearing assets	191,476	4,906	2.56	178,004	5,347	3.00	160,959	6,442	4.00
Receivables for credit card operations	3,030			2,914			2,941		
Other non-interest bearing assets[6]	4,625			[12]5,693			[12]5,024		
Total assets	199,131			186,611			168,924		
Total interest-bearing assets attributable to operations outside of Israel	7,548	134	1.78	5,241	124	2.37	5,689	140	2.46

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

For the year ended December 31,

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	2015			2014			2013		
	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate
			In %			In %			In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	6,295	8	0.13	5,204	5	0.10	4,804	15	0.31
Term deposits	114,058	932	0.82	118,599	1,359	1.15	107,417	2,094	1.95
Outside of Israel									
On-call	758	-	-	6	-	-	-	-	-
Term deposits	2,216	22	0.99	3,358	29	0.86	3,918	41	1.05
Total	123,327	962	0.78	127,167	1,393	1.10	116,139	2,150	1.85
Deposits from the Government									
In Israel	58	2	3.45	58	3	5.17	91	4	4.40
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	58	2	3.45	58	3	5.17	91	4	4.40
Deposits from banks									
In Israel	828	12	1.45	1,381	17	1.23	2,139	34	1.59
Outside of Israel	-	-	-	152	1	0.66	95	1	1.05
Total	828	12	1.45	1,533	18	1.17	2,234	35	1.57
Securities loaned or sold in conjunction with repurchase agreements									
In Israel	116	-	-	[11]93	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	116	-	-	93	-	-	-	-	-
Debentures and subordinated notes									
In Israel	21,652	392	1.81	18,752	556	2.97	15,243	786	5.16
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	21,652	392	1.81	18,752	556	2.97	15,243	786	5.16
Other liabilities									
In Israel	349	4	1.15	380	2	0.53	298	3	1.01
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	349	4	1.15	380	2	0.53	298	3	1.01
Total interest-bearing liabilities	146,330	1,372	0.94	147,983	1,972	1.33	134,005	2,978	2.22
Non-interest bearing deposits from the public	30,788			19,035			17,356		
Payables for credit card transactions	3,030			2,914			2,941		
Other non-interest bearing liabilities[8]	7,126			5,939			4,957		
Total liabilities	187,274			175,871			159,259		
Total equity resources	11,857			10,740[12]			9,665[12]		
Total liabilities and equity resources	199,131			186,611			168,924		
Interest margin			1.62			1.67			1.78
Net return[9] on interest-bearing assets									
In Israel	183,928	3,422	1.86	172,763	3,281	1.90	155,270	3,366	2.17
Outside of Israel	7,548	112	1.48	5,241	94	1.79	5,689	98	1.72
Total	191,476	3,534	1.85	178,004	3,375	1.90	160,959	3,464	2.15
Total interest-bearing liabilities attributable to operations outside of Israel	2,974	22	0.74	3,516	30	0.85	4,013	42	1.05

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued
For the year ended December 31,
Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

			2015			2014			2013
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %			In %
Israeli currency - non-linked									
Total interest-bearing assets	117,783	3,435	2.92	105,258	3,397	3.23	89,813	3,388	3.77
Total interest-bearing liabilities	85,504	(557)	(0.65)	[11]86,640	(781)	(0.90)	71,621	(1,173)	(1.64)
Interest margin			2.27			2.33			2.13
Israeli currency - linked to the CPI									
Total interest-bearing assets	52,518	1,019	1.94	53,845	1,505	2.79	51,568	2,590	5.02
Total interest-bearing liabilities	37,147	(626)	(1.69)	37,594	(987)	(2.63)	35,377	(1,681)	(4.75)
Interest margin			0.25			0.16			0.27
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	13,627	318	2.33	13,660	321	2.35	13,889	324	2.33
Total interest-bearing liabilities	20,705	(167)	(0.81)	20,233	(174)	(0.86)	22,994	(82)	(0.36)
Interest margin			1.52			1.49			1.97
Total - operations in Israel									
Total interest-bearing assets	183,928	4,772	2.59	172,763	5,223	3.02	155,270	6,302	4.06
Total interest-bearing liabilities	143,356	(1,350)	(0.94)	144,467	(1,942)	(1.35)	129,992	(2,936)	(2.26)
Interest margin			1.65			1.67			1.80

See remarks below.

Revenue and expense rates of the Bank and of its subsidiaries[(1)]
For the year ended December 31,
Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	2015 compared to 2014			2014 compared to 2013		
	Increase (decrease) due to change[(10)]			Increase (decrease) due to change[(10)]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	273	(714)	(441)	354	(1,294)	(940)
Outside of Israel	14	(11)	3	(11)	14	3
Total	287	(725)	(438)	343	(1,280)	(937)
Other interest-bearing assets						
In Israel	12	(22)	(10)	46	(185)	(139)
Outside of Israel	11	(4)	7	(1)	(18)	(19)
Total	23	(26)	(3)	45	(203)	(158)
Total interest revenues	310	(751)	(441)	388	(1,483)	(1,095)
Interest-bearing liabilities						
Deposits from the public						
In Israel	(27)	(397)	(424)	128	(873)	(745)
Outside of Israel	(3)	(4)	(7)	(5)	(7)	(12)
Total	(30)	(401)	(431)	123	(880)	(757)
Other interest-bearing liabilities						
In Israel	42	(210)	(168)	81	(330)	(249)
Outside of Israel	-	(1)	(1)	-	-	-
Total	42	(211)	(169)	81	(330)	(249)
Total interest expenses	12	(612)	(600)	204	(1,210)	(1,006)

(1) Information in these tables is after effect of hedging financial derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the one-year periods ended December 31, 2015, 2014 and 2013, we deducted (added) the average balance of unrealized gain (loss) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (2) million, NIS 9 million and NIS 7 million, respectively.
(5) From the average balance of debentures held for trading, for the one-year periods ended December 31, 2015, 2014 and 2013, we added (deducted) the average balance of unrealized gain (loss) from adjustment to fair value of debentures held for trading, amounting to NIS 4 million, NIS (33) million and NIS 18 million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 456, 417 and 284 million were included in interest revenues for 2015, 2014 and 2013, respectively.
(8) Includes derivative instruments.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.
(11) Reclassified.
(12) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Addendum 2 - Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter - for 2015

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues[1]	1,010	1,495	1,851	550
Interest expenses	190	562	769	(149)
Interest revenues, net	820	933	1,082	699
Expenses with respect to credit losses	75	61	40	35
Interest revenues, net after expenses with respect to credit losses	745	872	1,042	664
Non-interest revenues				
Non-interest financing revenues (expenses)	127	151	(45)	125
Commissions[1]	355	350	365	356
Other revenues	35	8	10	21
Total non-interest revenues	517	509	330	502
Operating and other expenses				
Payroll and associated expenses	499	487	492	[2]466
Maintenance and depreciation of buildings and equipment	169	175	174	[2]174
Other expenses	151	159	159	121
Total operating and other expenses	819	821	825	761
Pre-tax profit	443	560	547	405
Provision for taxes on profit	197	213	204	[2]147
After-tax profit	246	347	343	258
Share in net profit (loss) of associates, after tax	-	1	-	(1)
Net profit:				
Before attribution to non-controlling interest	246	348	343	257
Attributable to non-controlling interest	(6)	(32)	(13)	(9)
Attributable to shareholders of the Bank	240	316	330	248
Earnings per share[3]				
Basic earnings per share (in NIS)				
Total net profit attributable to shareholders of the Bank	1.04	1.36	1.43	1.06
Diluted earnings per share (in NIS)				
Total net profit attributable to shareholders of the Bank	1.03	1.36	1.42	1.05

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues as from January 1, 2014, see Note 1.D.4 to the financial statements.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(3) Share of NIS 0.1 par value.

Consolidated Statement of Profit and Loss by Quarter - for 2014 - continued

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues[1]	1,248	1,469	1,639	991
Interest expenses	402	576	716	278
Interest revenues, net	846	893	923	713
Expenses with respect to credit losses	150	5	23	(5)
Interest revenues, net after expenses with respect to credit losses	696	888	900	718
Non-interest revenues				
Non-interest financing revenues (expenses)	43	51	(2)	81
Commissions[1]	364	345	338	348
Other revenues	19	9	7	9
Total non-interest revenues	426	405	343	438
Operating and other expenses				
Payroll and associated expenses	[2]455	[2]499	[2]460	[2]452
Maintenance and depreciation of buildings and equipment	[2]195	178[2]	174[2]	[2]168
Other expenses	137	113	108	100
Total operating and other expenses	787	790	742	720
Pre-tax profit	335	503	501	436
Provision for taxes on profit	[2]128	[2]182	187	[2]160
After-tax profit	207	321	314	276
Share in net profit (loss) of associates, after tax	(1)	3	2	1
Net profit:				
Before attribution to non-controlling interest	206	324	316	277
Attributable to non-controlling interest	(3)	(11)	(9)	(8)
Attributable to shareholders of the Bank	203	313	307	269
Earnings per share[3]				
Basic earnings per share (in NIS)				
Total net profit attributable to shareholders of the Bank	0.88	1.36	1.34	1.17
Diluted earnings per share (in NIS)				
Total net profit attributable to shareholders of the Bank	0.88	1.35	1.33	1.16

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.D.4 to the financial statements.

(2) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

(3) Share of NIS 0.1 par value.

Consolidated balance sheet as of the end of each quarter in 2015

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	30,489	26,720	25,318	25,455
Securities	11,845	11,306	15,833	13,802
Securities loaned or purchased in resale agreements	71	100	-	300
Loans to the public	160,604	159,382	153,688	152,049
Provision for credit losses	(1,400)	(1,386)	(1,371)	(1,355)
Loans to the public, net	159,204	157,996	152,317	150,694
Loans to the Government	316	287	273	299
Investments in associates	36	39	38	45
Buildings and equipment	1,583	1,543	1,545	(1)1,544
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivative instruments	3,527	4,780	4,478	5,694
Other assets	2,000	2,108	1,875	3,052
Total assets	209,158	204,966	201,764	200,972
Liabilities and Equity				
Deposits from the public	162,380	158,107	153,736	153,002
Deposits from banks	1,166	1,298	1,903	1,472
Deposits from the Government	58	62	60	59
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	240
Debentures and subordinated notes	23,719	23,196	22,648	20,804
Liabilities with respect to derivative instruments	3,634	4,527	5,350	7,260
Other liabilities	5,786	5,598	6,271	(1)6,587
Total liabilities	196,743	192,788	189,968	189,424
Equity attributable to equity holders of the Bank	11,847	11,616	11,266	(1)11,033
Non-controlling interest	568	562	530	515
Total equity	12,415	12,178	11,796	11,548
Total liabilities and equity	209,158	204,966	201,764	200,972

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Consolidated balance sheet as of the end of each quarter in 2014 - continued

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	26,798	26,139	27,181	29,684
Securities	14,259	12,579	9,744	6,519
Securities loaned or purchased in resale agreements	107	70	112	297
Loans to the public	148,912	148,003	144,646	142,359
Provision for credit losses	(1,343)	(1,304)	(1,293)	(1,298)
Loans to the public, net	147,569	146,699	143,353	141,061
Loans to the Government	307	299	285	302
Investments in associates	52	64	61	60
Buildings and equipment	(1)1,570	(1)1,556	(1)1,544	(1)1,537
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivative instruments	5,602	5,367	3,467	3,280
Other assets	(1)2,162	(1)2,240	(1)2,271	(1)1,867
Total assets	198,513	195,100	188,105	184,694
Liabilities and Equity				
Deposits from the public	152,379	150,648	148,063	145,701
Deposits from banks	1,258	1,727	1,523	2,106
Deposits from the Government	55	56	56	61
Securities loaned or sold in conjunction with repurchase agreements	223	-	-	-
Debentures and subordinated notes	20,580	21,059	19,120	17,887
Liabilities with respect to derivative instruments	6,497	5,060	3,303	3,002
Other liabilities	(1)6,217	(1)5,441	(1)5,309	(1)5,499
Total liabilities	187,209	183,991	177,374	174,256
Equity attributable to equity holders of the Bank	(1)10,797	(1)10,603	(1)10,237	(1)9,951
Non-controlling interest	(1)507	(1)506	(1)494	(1)487
Total equity	11,304	11,109	10,731	10,438
Total liabilities and equity	198,513	195,100	188,105	184,694

(1) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software costs- see Note 1.C.1 and 1.C.2. to the financial statements.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements and and index for these terms

1. Terms with regard to risk management at the Bank and to capital adequacy

Term	Explanation	Location on the financial statements
Advanced credit-related models – IRB	The internal rating-based approach to credit risk (IRB) is an advanced method used to estimate unexpected loss (UL) and expected loss (EL). This approach uses an internal estimate of risk components when allocating the capital requirement for a given exposure.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements
Back testing	A process for assessment of appropriateness of model results, which includes a comparison of model forecasts and actual results.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Basel Committee	The Basel Committee is a forum for cooperation on matters of bank supervision. The Committee's objectives are to increase understanding in key supervision issues and to improve the quality of supervision over banking corporations around the world. The Committee is mostly known for the international standards on capital adequacy, core principles for effective supervision over banks and for coordination between different countries in order to create cross-border supervision over banks world-wide.	This term appears many times.
Basel II	A framework for assessment of capital adequacy and risk management, published in its final version by the Basel Committee on Bank Supervision in 2006.	This term appears many times.
Basel III	A framework for assessment of capital adequacy and risk management, initially published by the Basel Committee on Bank Supervision in 2010.	This term appears many times.
Basis (linkage) risk	The risk of capital erosion due to changes in exchange rates and inflation rate. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Borrower rating	A rating which reflects the Bank's risk assessment for a borrower or a counter-party to a transaction.	This term appears many times.
Business continuity	A situation where the Bank operates continuously and with no disruption.	Chapter "Risk Overview" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
Compliance and regulatory risk	The risk of imposition of legal or regulatory sanctions, material financial loss or impact to Bank image, which the Bank may incur due to its failure to comply with compliance provisions (such as: statutory provisions, regulation, standards and conduct commonly expected from the corporation).	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Counter-party credit risk	The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.	Chapter "Policies and critical accounting estimates, controls and procedures" on the Report of the Board of Directors and Management Note 25 to the annual financial statements Chapter "Corporate governance" on the financial statements
Credit concentration risk	Concentration risk is any individual exposure or exposure group, with the potential to cause large enough loss (relative to Bank capital, assets or overall risk level) - even endangering the corporation's standing or capacity to continue its core operations. Credit concentration is the risk inherent in the link (correlation) between various credit exposures for the Group or exposure portfolio, due to shared attributes, such as: Borrower concentration, geographic concentration, sector concentration and collateral concentration.	Chapter "Explanation and analysis of results and business standing" and chapter "Policies and critical accounting estimates, controls and procedures" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Credit rating (score)	A credit rating is a score assigned to a borrower, as part of assessment of its capacity to fulfill its obligations when due and in full.	Chapter "Risk Overview" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements
Credit risk	Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank.	This term appears many times.
Credit Valuation Adjustment risk (CVA)	CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means - loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating) .	Term included in Notes to the financial statements Chapter "Corporate governance" on the financial statements
CRM - Credit Risk Mitigation	Methods for reducing credit risks, such as: Insuring credit exposure through a guarantee or a deposit.	Chapter "Overview, targets and strategy" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
CRO - Chief Risk Officer	A member of Bank management, heads the Risk Management Division at the Bank. The CRO is responsible for the risk management function, for the comprehensive risks management framework across the Bank and for other roles as specified in the Supervisor of Banks' directives.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements
Cross-border risk	The risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries - whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements
Economic value approach - EVE - Economic Value of Equity	The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Environmental risk	The risk of loss which may arise from deterioration in the borrower's financial standing, due to high cost incurred because of environmental hazard and regulation related to environmental protection, or to impairment of collateral exposed to environmental risk. Alternatively, the risk of the Bank being indirectly liable for an environmental hazard caused by a project financed by the Bank.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
External credit rating agencies	Rating agencies which provide external credit ratings and recognized by the Supervisor of Banks, in conformity with specified qualification requirements. Qualified external credit rating agencies are: S&P, Moody's and Fitch.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Financing risk	Financing risk, or funding liquidity risk, is the risk that the corporation would not be able to efficiently service its cash flow and collateral needs, both expected and unexpected, both present and future, without this affecting its day-to-day operations or its financial standing.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
HQLA - High Quality Liquid Assets	High-Quality Liquid Assets which may be easily and quickly converted into cash at a small loss (or no loss) under a stress scenario.	Chapter "Corporate governance" on the financial statements

Term	Explanation	Location on the financial statements
ICAAP - Internal Capital Adequacy Assessment Process	Internal process for assessment of overall capital adequacy at the Bank. This process includes, inter alia, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.	Chapter "Risk Overview" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements
ICAAR - Internal Capital Adequacy Assessment Report	The summary report for the ICAAP process.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Inflation risk	Exposure to loss due to the effect of changes in the Consumer Price Index on profit or capital of the corporation, including through effect on off-balance sheet items.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Interest rate risk	The risk to Bank profit (change in revenues) or to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing", chapter "Risk overview" and chapter "Policies and critical accounting estimates, controls and procedures" in the Report of the Board of Directors and Management
KPIs - Key performance indicators	Key performance indicators, used as a tool to formulate insights about the status of process execution across the Bank.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
KRI - Key risk indicators	Key risk indicators are risk benchmarks and/or statistical benchmarks used to monitor key factors associated with key risks factors at the banking corporation, in order to try and diagnose risk materialization, as early as possible.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Legal risk	Legal risk is part of operational risk and includes the risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risk arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Liquidity risk	The risk to profit and stability of the banking corporation, due to its inability to satisfy its liquidity requirements.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements Chapter "Corporate governance" on the

Term	Explanation	Location on the financial statements
		financial statements
Loan to Value (LTV) ratio	The ratio between the approved facility when extended and the asset value.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Market risk	This is the risk of loss in on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).	This term appears many times.
Minimum capital ratio	This ratio reflects the minimum supervisory capital requirement which the Bank is required to maintain in conformity with Proper Banking Conduct Directive 201.	Chapter "Overview, targets and strategy" in the Report of the Board of Directors and Management - term included in Notes to the financial statements
Monte Carlo simulation	A statistical technique which applies simulations to estimate distributions, such as loss distribution.	Chapter "Policies and critical accounting estimates, controls and procedures" on the Report of the Board of Directors and Management
Operational risk	The risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. This risk is inherent in all products, activities, processes and systems.	This term appears many times.
Pillar 1	The first pillar of the Basel II amendment, includes calculation of minimum capital requirements with respect to credit risk (including counter-party risk), market risk (negotiable portfolio only) and Operational risk.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Pillar 2	The second pillar of the Basel II amendment, refers to the Supervisory Review Process. This part consists of the following basic principles: • The Bank shall conduct the ICAAP process, as defined above. • The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. • The Bank is expected to operate above the specified minimum capital ratios.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Pillar 3	The third pillar of the Basel II amendment, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes - and use these to assess the Bank's capital adequacy.	Chapter "Policies and critical accounting estimates, controls and procedures" on the Report of the Board of Directors and Management Term included in Notes to the financial statements Chapter "Corporate governance" on the financial statements

Term	Explanation	Location on the financial statements
Reputation risk	Reputation is a set of concepts, ideas and beliefs by interested parties about the corporation, based on their experience and expectations. Reputation risk is the risk to corporate profit, stability or capacity to achieve its objectives, due to impact to reputation which may arise from practices applied by the corporation, its financial standing or negative publicity (whether true or false).	Chapter "Overview, targets and strategy" and chapter "Risk overview" in the Report of the Board of Directors and Management
Risk	Risk is the potential (likelihood) of impact to capital, profit, stability of the corporation or its capacity to achieve its business objectives.	This term appears many times.
Risk appetite	A decision made by the Bank with regard to the risk level which the banking corporation is willing to assume, given the risk / reward profile.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Risk assets	These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Banking Conduct Directives 201-211.	This term appears many times.
Risk profile	Assessment of the aggregate risk inherent in exposures and business operations of the Bank at a certain point in time.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Risk exposure report	A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risk exposure report is compiled and sent to the Board of Directors quarterly.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Risks management framework	A framework for risks management, which includes policy, procedures, measurement, risk appetite and controls for risk management.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management, chapter "Corporate governance" on the financial statements
Standard approach	An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.	This term appears many times.
Strategic risk	Strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper	Chapter "Risk Overview" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
	deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned.	
Stress tests	A title for various methods used to assess the financial standing of a banking corporation under a scenario.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Supervisory capital (total capital)	Supervisory capital consists of two tiers: - Tier I equity , which includes Tier I shareholder equity and additional Tier I equity. - Tier 2 equity. As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy - supervisory capital".	Chapter "Overview, targets and strategy" and chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management - term included in Notes to the financial statements
Three lines of defense	The risk management framework is based on three lines of defense: First line – risk takers: Business line management is responsible for identification, assessment, measurement, monitoring, mitigation and reporting of the inherent risks. It is also responsible for management of an appropriate control environment for risk management. Second line – risk controllers: The risks management function is tasked with complementing the risks management activities by the line of business. Responsible, inter alia, for planning and development of a risks management framework and for challenging risks management by the lines of business. Third line – Internal Audit conducts an independent review and challenges the controls, processes and systems used for risks management.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
VaR	A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to changes of market risk factors in a given time period at a pre-determined statistical confidence level.	Chapter "Risk Overview" in the Report of the Board of Directors and Management

2. Terms with regard to banking and finance

Term	Meaning	Report chapter
Asset and Liability Management (ALM)	A technique applied by organizations to align the composition of assets and liabilities in order to ensure an adequate return on equity. This means management of risks arising from gaps between the composition of assets and liabilities, at the business level. This includes processes for management of market and liquidity risks, setting shadow pricing etc.	Term included in Notes to the financial statements
Average effective duration	The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Banking portfolio / non-negotiable portfolio	The banking portfolio, which is the Bank's primary activity, consists of all transactions not included in the negotiable portfolio, including financial derivatives used to hedge the banking portfolio.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
CDS - Credit Default Swap	A financial instrument which enables transfer of credit exposure to the instrument issuer between parties to a transaction. The buyer of this instrument obtains insurance from the seller in case of payment failure by the issuer of the securities, for payment of a periodic premium.	Chapter "Policies and critical accounting estimates, controls and procedures" on the Report of the Board of Directors and Management – term included in Notes to the financial statements
Credit control	A review process designed to assess performance of the team involved in extending credit and the overall status of the credit portfolio. This process is retroactively conducted by the Bank's Credit Control Department; the review includes a review of rating reliability and appropriateness of classification and provision.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Credit underwriting	A process which includes analysis and assessment of credit risk inherent in a transaction and approval of such transaction in conformity with policy and procedures, in order to extend credit.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements

Term	Meaning	Report chapter
Debt under restructuring	Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).	This term appears many times.
Debt under special supervision	Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Derivatives	A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.	This term appears many times.
Financial covenants	Covenants agreed between lender and borrower in the loan contract, which specify suspensive conditions for extending credit, such as achieving certain financial ratios. Occasionally, a breach of such condition may give cause to demand immediate repayment of the credit.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management
Financial project assistance	A method for financial project assistance (closed assistance) is a financing method where the borrower expects to be repaid primarily from expected project receipts, which are both the repayment source and the collateral for exposure. As part of this method, the financed projects are closely monitored.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Impaired debt	Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Banking Conduct Directive 314 on problematic debt in housing loans.	This term appears many times.

Term	Meaning	Report chapter
Inferior debt	Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
ISDA agreement	An agreement which covers transactions in derivatives between banks and allows for aggregation and offset into a single amount of net obligations of either party to all transactions together, upon occurrence of a bankruptcy event or another event which qualifies for transaction closing, according to the agreement.	This term appears many times.
Liquidity cushion	The balance of liquid assets at the Bank, after applying appropriate predefined safety factors.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Loan repayment to income ratio	The ratio between monthly payment and available monthly income. This ratio is a benchmark used for assessment of the current repayment capacity of the borrower over the term of the loan.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
Minimum liquidity coverage ratio	The ratio of liquidity cushion to net forecasted cash outflows for the next month, under various scenarios.	Chapter "Risk Overview" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements
Negotiable portfolio	The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific limitations on exposure and profitability.	Chapter "Risk Overview" in the Report of the Board of Directors and Management
OTC - Over the Counter	Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.	Term included in Notes to the financial statements Chapter "Corporate governance" on the financial statements
Provision for credit losses	A provision designed to cover expected credit losses in the Bank's credit portfolio. These losses reflects the net write-off amount which is likely to materialize for a loan or loan group, given the facts and circumstances as of the evaluation date.	This term appears many times.

Term	Meaning	Report chapter
Securitization	Traditional securitization is a structure where cash flow from a collection of base exposures is used to serve at least two different layers of positions or risk layers, which reflect different credit risk levels. Payments to investors are contingent on the performance of the specific base exposures, as opposed to payments arising from the obligation of the entity which generated such exposure.	Chapter "Policies and critical accounting estimates, controls and procedures" on the Report of the Board of Directors and Management
Troubled debt	Debt classified under one of the following negative classifications: special supervision, inferior or impaired.	This term appears many times.

3. Terms with regard to regulatory directives

Term	Meaning	Report chapter
FATCA - Foreign Accounts Tax Compliance Act	The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).	Chapter "Explanation and analysis of results and business standing" and chapter "Risk overview" in the Report of the Board of Directors and Management, chapter "Corporate governance" on the financial statements
LCR - Liquidity Coverage Ratio	Liquidity Coverage Ratio is defines as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.	Chapter "Risk Overview" in the Report of the Board of Directors and Management Chapter "Corporate governance" on the financial statements

4. Other terms

Term	Meaning	Report chapter
Corporate governance	The ensemble of relations between management, the Board of Directors, shareholders and interested parties which form the structure used to determine Bank objectives and the means to achieve and to monitor these objectives. Corporate governance also supports definition of roles and responsibilities as well as the decision-making process.	This term appears many times.
SOX	US legislation, partially adopted by the Bank of Israel, designed to regulate responsibilities and internal control over financial reporting and disclosure at the organization.	Chapter "Risk Overview" in the Report of the Board of Directors and Management

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