Condensed Financial Statements as of June 30, 2015

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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

Condensed Board of Directors' Report for Financial Statements as of June 30, 2015

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Condensed Board of Directors' Report
for Financial Statements as of June 30, 2015

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 16, 2015, it was resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of June 30, 2015.
The financial statements are prepared in accordance with generally accepted accounting policies in Israel for interim financial reporting, and in accordance with directives and guidance from the Supervisor of Banks.

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

Developments in Israel's economy in the first half of 2015

Real Developments

Macro-economic data for the first half of 2015 show a moderate growth trend in economic activity as well as in foreign trade, local demand and industrial output benchmarks.
In the first quarter of 2015, GDP grew at an annualized 2.0%, compared to 6.5% in the fourth quarter of 2014 and 2.8% in all of 2014. Growth in the first quarter was negatively affected by lower exports of commodities and services and investment in the economy, as well as slower growth in public consumption. Conversely, growth was positively affected by further high-rate growth in private consumption. The Bank of Israel Composite Index rose in the second quarter of the year by an annualized 3.7%, compared to 3.6% in the first quarter of this year.
Exports of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the second quarter of 2015 by 17.6% following a decrease of 11.1% in the first quarter of this year. This was due to continued slow-down in global trade, along with a stronger NIS vs. the currency basket and a stronger USD vs. other world currencies. Imports of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) increased in the second quarter of the year by 0.5%, after an increase by as much as 9.8% in the previous quarter. This was due to increased imports of investment products, along with a more moderate decrease in imports of consumer goods and imports of raw materials. The total trade deficit in the first half of 2015 amounted to USD 3.4 billion, compared to USD 6.2 billion in the corresponding period last year - a decrease of 44.0%.
In the first five months of 2015, the economic sector turnover index was unchanged and the retail chain turnover index decreased. The industrial output index decreased by 8.0% in the period, while high-tech output also decreased slightly. The consumer confidence index and the business trend assessment index showed improvement in the first half of 2015, while the purchasing manager index continued to show a decline in activity.

In the first five months of 2015, the average unemployment rate was at 5.2%, compared to 5.9% in the corresponding period last year. Participation in the labor force dropped slightly to 63.9% in the first five months of 2015, from 64.1% in the corresponding period last year.

Inflation and exchange rates

In the first half of 2015, the Consumer Price Index declined by 0.2%; in the corresponding period last year the CPI was unchanged. 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 and prices of education, culture and entertainment. In the twelve months ended June 2015, the CPI decreased by 0.4%.

Below is information about official exchange rates and changes :

	June 30, 2015	December 31, 2014	Change in %
Exchange rate of:			
USD (in NIS)	3.769	3.889	(3.1)
EUR (in NIS)	4.219	4.725	(10.7)

On August 11, 2015, the EUR/NIS exchange rate was 4.251 - a 0.8% devaluation since June 30, 2015. The USD/NIS exchange rate on this date was 3.815 - a devaluation of 1.2% since June 30, 2015.

In support of the exchange rate, the Bank of Israel purchased in the first half of 2015 foreign currency valued at USD 2.6 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 the first half of 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 the first half of 2015, the government budget recorded a NIS 3.4 billion cumulative deficit, compared to a NIS 4.7 billion cumulative deficit in the corresponding period last year. The deficit rate for the 12 months ended June 2015 is 2.6%, compared to 2.8% for all of 2014. Tax revenues increased in this period by 5.6% over the corresponding period last year, while Government expenditure increased by 5.7% in the same period.

As from July 15, 2015, Dr. Hedva Bar is the Supervisor of Banks, replacing Mr. David Zaken.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first five months of 2015 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 21,020 apartments, an increase of 23.3% over the corresponding period last year and an increase of 14.0% over the corresponding period in 2013. This was due, in part, to cancellation of the "0% VAT" program and the resulting decline in public confidence in the Government's ability to bring about lower prices. 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 (55.7%) and in the Tel Aviv region (30.9%). Based on the average pace of sales in the six months ended May 2015, the housing inventory would account for 7.9 months' sales - lower than inventory in December 2014 (10.7 months) and in December 2013 (12.0 months). In the first half of 2015, housing loans given to the public amounted to NIS 32.2 billion, compared to NIS 25.5 billion in the corresponding period last year - an increase of 26.2%.

According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in May 2015 by 3.2%, compared to 4.6% in December 2014 and to 9.0% in May of last year.

Capital market

In the second quarter of 2015, the trading trend changed with most of the leading benchmarks passing from an upward trend to a trend of decline in prices..

Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were higher in the second quarter of 2015 by 1.4% and 0.1%, respectively, compared to increases of 11.0% and 10.0% in the first quarter of this year. The Tel Aviv 75 Index was lower by 3.8%, following an increase of 7.0% in the first quarter. The Real Estate 15 Index was sharply lower by 8.1%, compared to a sharp increase of 18.8% in the first quarter. The Yeter 50 Index declined by 1.7%, following a 14.8% increase in the first quarter. Conversely, financials were higher. The Banking and Financials 15 indices were higher by 7% and 5.8%, respectively, following increases of 6.6% for each index in the first quarter of 2015.

Average daily trading volume in equities and convertible securities in the second quarter of 2015 was NIS 1.4 billion, compared to NIS 1.3 billion in the previous four quarters.

Total equity issues (excluding equity issued overseas) were lower in the second quarter of 2015, amounting to NIS 1.4 billion, compared to a quarterly average of NIS 3.1 billion in the previous four quarters.

Debenture market - Government debentures were sharply lower in the second quarter of 2015, in line with higher yields around the world. Long-term debentures were down more sharply than short-term debentures.

The General Debenture Index decreased by 2.8% in the second quarter of 2015, following an increase of 3.5% in the first quarter of 2015. The CPI-Linked Government Debenture Index decreased by 4.9% in the second quarter of this year, following an increase of 5.1% in the first quarter of this year. The Non-Linked Debenture Index was down by 2.7%, following an increase of 3.5% in the first quarter. The leading Tel Bond benchmarks were also lower: The Tel Bond 20 Index was down by 2.0% in the second quarter of this year, after rising by 1.7% in the first quarter; the Tel Bond 40 Index was down by 1.5%, after rising by 1.6% in the first quarter of 2015.

Ac trend of higher yields around the world affected corporate debentures and was reflected by wider spreads of their yield to maturity over Government debentures, which started in the fourth quarter of 2014; debentures rated AA traded at the end of the second quarter of 2015 at an average spread of 128 percentage points, compared to 101 percentage points at the end of the first quarter; debentures rated A traded an average spread of 275 percentage points, similar to the margin at the end of the first quarter.

In total, the business sector raised from the public and from institutional investors by debenture issuance some NIS 14.7 billion in the second quarter of 2015, compared to an average of NIS 15.4 billion raised in the previous four quarters. The average daily trading volume in debentures in the second quarter of 2015 was NIS 4.7 billion, compared to NIS 4.6 billion over the previous four quarters.

Global economy

In the first half of 2015, the US local economy showed more moderate growth in the pace of growth. This was mostly due to the stronger USD vs. major world currencies and after continued decline in energy prices, primarily in the first quarter of this year. US GDP decreased in the first quarter of 2015 at an annualized 0.2% after a growth rate of 2.2% in the previous quarter. Growth was negatively affected by a sharp decline, by 7.2%, in exports of goods and services and by a decline by 2.5% in investment in fixed assets. Private consumption increased by a moderate 2.1%. Note that in the second quarter of this year, the USD was weaker vs. other currencies and oil prices increased, although only at moderate rates In the first half, the growth rate moderated in industrial output and in retail. The purchasing manager index remained above 50 points, an indicator of growing economic activity - but was also somewhat lower in the first half. Data late in the first half of 2015 shows a more moderate growth in the US labor market, with the participation rate at its lowest level since 1977, the number of newly created jobs lower than expected and salaries continuing to rise at a slow pace. Core inflation, net of the effect of lower energy and food prices, in terms of the trailing 12 months, was at 1.8% in the first half of this year. Given economic developments in the first half of this year, the US Federal Reserve issued a more moderate forecast for the pace of interest rate increase and the IMF revised downwards its growth forecast for the US economy in 2015, to 3.1% from 3.6% in its previous forecast.

The Euro Zone economy was facing uncertainty late in the first half of this year, due to the Greece debt crisis and concerns about Greece leaving the Euro Zone. In July, a third bail-out plan was finally approved, amounting to EUR 86 billion, in exchange for further austerity measures and asset privatization by the Greek Government. Despite the Greek debt crisis, the Euro Zone improved somewhat in the first half of this year. This was against the backdrop of the launch of a quantitative expansion program in March 2015, 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. The positive trend was evident in higher growth in the industrial output and retail benchmarks. Expectation surveys also improved somewhat, including the purchasing manager index. The core inflation rate, in terms of the trailing 12 months, reached 0.8% in June 2015, compared to 0.7% in December 2014. The unemployment rate continued to decline, although at a slow pace and it is still at a high level of 11.1%, as of May 2015. Due to improved economic indicators, the IMF revised its growth rate forecast for the Euro Zone in 2015 upwards to 1.5%, from 1.2% in its previous forecast.

In the second quarter of 2015, China's economy continued to grow at a relatively moderate 7.0%, similar to the growth rate in in the first quarter. This was against the backdrop of slower imports and further decline in industrial output and retail sales. However, core inflation in terms of the trailing 12 months, accelerated somewhat to 1.7% in June 2015, compared to 1.3% in all of 2014.

In the second quarter of 2015, the Dow Jones Index was down by 1.5%, following a decrease by 0.4% in the first quarter of this year - similar to the trend for most benchmarks around the world. The S&P 500 Index decreased in the second quarter of this year by 0.7%, after rising by 0.1% in the first quarter of this year. The NASDAQ 100 Index rose in the current period by 0.8%, after rising by 2.1% in the first quarter of 2015.

The UK FTSE 100 Index and the French CAC Index were down in the second quarter of 2015 by 3.7% and 4.9%, respectively - after being up by 3.2% and 17.8%, respectively in the first quarter of 2015. The German DAX Index decreased by 8.5% in the second quarter of 2015, following a sharp increase of 22.0% in the first quarter of 2015. The Japanese Nikkei Index increased by 3.6% in the second quarter of 2015, following an increase of 11.2% in the first quarter of 2015. Late in the second quarter of 2015, equity benchmarks in China started to trend lower. The Shanghai 50 Index was down 3.8% in the second quarter. The declines turned sharper early in the third quarter of this year, resulting in drops in other equity markets around the globe. In response to the lower share prices, the Chinese Government and the Chinese Securities Authority took action. The Central Bank of China committing to support investments in the equity market and major brokerage firms undertook to provide more than USD 19 billion to a fund designed to stabilize the markets. These actions were successful for a short while, after which shares were once again dropping due, *inter alia*, to concern about discontinuation of the Government intervention and lack of faith in China's growth data. Consequently, the IMF called on China to discontinue these measures and to allow the market to act free of influence.

Key Data for the Bank Group

Evolution of revenues and expenses

	For the quarter ended				
	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
					NIS in millions
Interest revenues, net	1,082	699	846	893	923
Non-interest financing revenues (expenses)	(45)	125	43	51	(2)
Commissions and other revenues	375	377	383	354	345
Total revenues	1,412	1,201	1,272	1,298	1,266
Expenses with respect to credit losses	40	35	150	5	23
Operating and other expenses(2)	825	761	787	790	742
Profit before provision for taxes(2)	547	405	335	503	501
Provision for taxes(2)	204	147	128	182	187
Net profit(1)(2)	330	248	203	313	307

	For the six months ended June 30,		For the year ended December 31,
	2015	2014	2014
			NIS in millions
Interest revenues, net	1,781	1,636	3,375
Non-interest financing revenues (expenses)	80	79	173
Commissions and other revenues	752	702	1,439
Total revenues	2,613	2,417	4,987
Expenses with respect to credit losses	75	18	173
Operating and other expenses(2)	1,586	1,462	3,039
Profit before provision for taxes(2)	952	937	1,775
Provision for taxes(2)	351	347	657
Net profit(1)(2)	578	576	1,092

Balance sheet - key items

	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
					NIS in millions
Balance sheet total(2)	201,764	200,972	198,513	195,100	188,105
Loans to the public, net	152,317	150,694	147,569	146,699	143,353
Securities	15,833	13,802	14,259	12,579	9,744
Deposits from the public	153,736	153,002	152,379	150,648	148,063
Debentures and subordinated notes	22,648	20,804	20,580	21,059	19,120
Equity(1)(2)	11,266	11,033	10,797	10,603	10,237

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

(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 cost- see Note 1.C.1 and 1.C.2. to the financial statements.

Key financial ratios (in percent)

	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Net profit return on equity(1)(3)	12.4	9.4	7.8	12.6	12.7
Deposits from the public to loans to the public, net	100.9	101.5	103.3	102.7	103.3
Capital to total assets(3)	5.58	5.49	5.44	5.43	5.44
Ratio of Tier I capital to risk elements(3)	9.30	9.10	9.05	8.95	8.94
Total ratio of capital to risk elements(3)	12.86	12.66	12.97	12.89	12.99
Liquidity coverage ratio(4)	84	-	-	-	-
Leverage ratio(5)	5.24	-	-	-	-
Cost income ratio(2)(3)	58.4	63.4	61.9	60.9	58.6
Expenses with respect to credit losses to loans to the public, net for the period(1)	0.11	0.09	0.41	0.01	0.06
Basic earnings per share (in NIS)(3)	1.43	1.07	0.88	1.36	1.33
Diluted earnings per share (in NIS)(3)	1.42	1.07	0.88	1.35	1.32

	For the six months ended June 30,		For the year ended December 31,
	2015	2014	2014
Net profit return on equity(1)(3)	10.8	11.9	10.6
Cost income ratio(2)(3)	60.7	60.5	60.9
Expenses with respect to credit losses to loans to the public, net for the period(1)	0.10	0.03	0.12
Basic earnings per share (in NIS)(3)	2.50	2.51	4.74
Diluted earnings per share (in NIS)(3)	2.50	2.49	4.71

(1) Calculated on annualized basis.

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

(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. According to these directives, capital adequacy data only include retroactive application with regard to capitalization of software costs.

(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 of Directive 218

Forward-Looking Information

Some of the information in the Report of the Board of Directors, 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 risk 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 risk, 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.

Dividends

On December 23, 2014, the Bank Board of Directors resolved to approve the revised dividend distribution policy for 2015 and 2016. The revised dividends policies call 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 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.

For more information about resolutions by the Board of Directors, including dividends policies for 2017, see the chapter "Investments in Bank Capital and Transactions in Bank Shares" in the annual financial statements as of December 31, 2014.

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 was distributed on June 14, 2015.

On August 16, 2015, to distribute dividends amounting to NIS 49.5 million with respect to earnings in the second quarter of 2015(1).

Below are details of dividends distributed by the Bank since 2013 through the publication date of these financial statements (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

(1) The dividends amount is 213.6% of issued share capital, i.e. NIS 0.2136 per NIS 0.1 par value share. The effective date for dividend payment is August 30, 2015 and the payment date is September 17, 2015. The final dividend 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 dividend payment was June 1, 2015 and the payment date was June 14, 2015.

Profit and profitability

Group net profit in the second quarter of 2015 amounted to NIS 330 million, compared to NIS 307 million[(1)] in the corresponding period last year – an increase of 7.5%.

This increase rate of net profit was achieved despite the effect of the low inflation and interest rate environment.

This profit reflects an annualized return on equity at 12.4%, compared to 12.7%[(1)] in the corresponding period last year, given an increase in the Bank's capital base in this period amounting to NIS 1 billion, or 10.1%. Total shareholder equity as of June 30, 2015 amounted to NIS 11.3 billion.

Net profit for the Group in the first half of 2015 amounted to NIS 578 million, compared to NIS 576 million[(1)] in the corresponding period last year. This reflects a 10.8% annualized return on equity, compared to 11.9%[(1)] in the corresponding period last year and 10.6%[(1)] for all of 2014.

The following major factors affected Group operating income in the second quarter and in the first half of 2015 compared to the corresponding periods last year:

- Financing revenues from current operations (including net interest revenues and non-interest financing revenues) increased in the second quarter of 2015 by 9.7% over the corresponding period last year. (In the first half of this year, an increase by 10.4%). See also the analysis of evolution of financing revenues, below.
- Commissions and other revenues increased in the second quarter of 2015 by 8.7% over the corresponding period last year (in the first half of this year - an increase by 7.1%). 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 effect of Bank operating results in conjunction with asset reorganization and improvements to the branch network in the first quarter of 2015.
- Operating and other expenses increased in the second quarter of 2014 by 11.2%, over the corresponding period last year.

  The increase in operating and other expenses includes: Increase in payroll and associated expenses over the corresponding period last year, attributed to employee stock option plans and to decrease in capitalization of software development cost, expenses with respect to services of external experts in conjunction with the US DOJ inquiry[(2)] and increase in stock exchange commissions (in the first half of this year, operating and other expenses increased by 8.5%). See explanation below.
- Expenses with respect to credit losses in the second quarter of 2015 increased by NIS 17 million compared to the corresponding period last year (in the first half of this year, an increase by NIS 57 million). In corresponding periods last year, the Bank recognized collections from a number of clients, written off in previous periods.

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(1) 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) See Note 7.C.4 to the financial statements for information.

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues[1] from current operations in the first second quarter of 2015 amounted to NIS 941 million, as described below, compared to NIS 858 million in the corresponding period last year, an increase of 9.7%.

Net interest revenues and non-interest financing revenues [1] from current operations in the first half of 2015 amounted to NIS 1,865 million, as described below, compared to NIS 1,690 million in the corresponding period last year, an increase of 10.4%.

Net interest revenues and non-interest financing revenues [1] in the second quarter of 2015 amounted to NIS 1,037 million, as described on these financial statements, compared to NIS 921 million in the corresponding period last year, an increase of 12.6%.

Net interest revenues and non-interest financing revenues [1] in the first half of 2015 amounted to NIS 1,861 million, as described on these financial statements, compared to NIS 1,715 million in the corresponding period last year, an increase of 8.5%.

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

	Second Quarter			First half of		
	2015	2014	Change in %	2015	2014	Change in %
Interest revenues, net	1,082	923		1,781	1,636	
Non-interest financing revenues (expenses) [1]	(45)	(2)		80	79	
Total financing revenues	1,037	921	12.6	1,861	1,715	8.5
Less:						
Effect of CPI	102	46		(63)	(13)	
Revenues from collection of interest on problematic debt	11	16		20	40	
Gains from realized debentures available for sale and gains (losses) from debentures held for trade, net	(9)	17		88	45	
Effect of accounting treatment of derivatives at fair value and others[2]	(8)	(16)		(49)	(47)	
Total effects other than current operations	96	63		(4)	25	
Total financing revenues from current operations	941	858	9.7	1,865	1,690	10.4

(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):

	First half of			
Operating segment	2015	2014	Change amount	Change in %
Retail banking:				
Mortgages	397	349	48	13.8
Households	570	573	(3)	(0.5)
Small business	267	250	17	6.8
Total	1,234	1,172	62	5.3
Private banking	30	29	1	3.4
Commercial banking	82	81	1	1.2
Business banking	399	398	1	0.3
Financial management	116	35	81	-
Total	1,861	1,715	146	8.5

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

	Second Quarter			First half of		
Linkage segment	2015	2014	Change in %	2015	2014	Change in %
Israeli currency - non-linked	116,348	104,321	11.5	114,359	102,449	11.6
Israeli currency - linked to the CPI	52,067	53,606	(2.9)	52,438	53,477	(1.9)
Foreign currency (including Israeli currency linked to foreign currency)	13,568	13,283	2.1	13,801	13,276	4.0
Total	181,983	171,210	6.3	180,598	169,202	6.7

The increase in average balance of interest-bearing assets in the NIS-denominated segment is primarily due to higher 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:

	Second Quarter		First half of	
Linkage segments	2015	2014	2015	2014
Israeli currency - non-linked	2.29	2.20	2.35	2.32
Israeli currency - linked to the CPI	0.65	0.37	0.38	0.07
Foreign currency	1.59	1.64	1.84	1.62
Total	1.88	1.84	1.75	1.67

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

The increase in interest spread in the NIS-denominated and CPI-linked segments is primarily due to increased credit spreads. In these segments, the increase in credit spreads exceeded the erosion of deposit spreads, due to the low interest rate environment.

See Management Discussion - Addendum A for interest rate differences by various criteria (type of operations, linkage segment and volume / price analysis).

Expenses with respect to credit losses for the Group amounted to NIS 40 million in the second quarter of 2015, or an annualized rate of 0.11% of total loans to the public, net, compared with NIS 23 million in the corresponding period last year – an annualized rate of 0.06% of total loans to the public, net in the corresponding period last year - a decrease of NIS 17 million in total.

Expenses with respect to credit losses for the Group amounted to NIS 75 million in the first half of 2015, or an annualized rate of 0.10% of total loans to the public, net, compared with NIS 18 million, or an annualized rate of 0.03% of total loans to the public, net in the corresponding period last year - for an increase of NIS 57 million in total.

In corresponding periods last year, the Bank recognized collections from a number of clients, written off in previous periods.

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

	Second Quarter		First half of	
	2015	2014	2015	2014
Provision for credit losses on individual basis (including accounting write-offs)	47	6	33	(9)
Provision for credit losses on Group basis:				
By extent of arrears	-	(1)	(7)	(7)
Other	(7)	18	49	34
Total expenses with respect to credit losses	40	23	75	18
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	0.11%	0.06%	0.10%	0.03%
Of which: With respect to commercial loans other than housing loans	0.24%	0.13%	0.27%	0.04%
Of which: With respect to housing loans	0.04%	0.03%	0.01%	0.01%

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

Operating segment	Second Quarter		First half of	
	2015	2014	2015	2014
Retail banking:				
Mortgages	10	7	6	7
Households	9	13	13	17
Small business	29	21	58	43
Total	48	41	77	67
Private banking	1	2	2	2
Commercial banking	(2)	(3)	6	(4)
Business banking	(4)	(13)	(8)	(45)
Financial management	(3)	(4)	(2)	(2)
Total	40	23	75	18

Net interest revenues after expenses with respect to credit losses in the second quarter of 2015 amounted to NIS 1,042 million, compared to NIS 900 million in the corresponding period last year - an increase of 15.8% - and with non-interest financing revenues - an increase of 11.0%.

Net interest revenues after expenses with respect to credit losses in the first half of 2015 amounted to NIS 1,706 million, compared to NIS 1,618 million in the corresponding period last year - an increase of 5.4% - and with non-interest financing revenues - an increase of 5.2%.

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

Non-interest expenses for the Group amounted to NIS 330 million in the second quarter of 2015, compared with NIS 343 million in the corresponding period last year - a year-over-year decrease of 3.8%.

Non-interest expenses for the Group amounted to NIS 832 million in the first half of 2015, compared with NIS 781 million in the corresponding period last year - an increase at the rate of 6.5%. See explanation below.

Non-interest financing revenues in the second quarter of 2015 amounted to an expense of NIS 45 million, compared to an expense of NIS 2 million in the corresponding period last year.

Non-interest financing revenues in the fourth half of 2015 amounted to NIS 80 million, compared to NIS 79 million in the corresponding period last year.

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

Commission revenues amounted to NIS 365 million in the second quarter of 2015, compared with NIS 338 million in the corresponding period last year - an increase of 8.0%.

Commission revenues amounted to NIS 721 million in the first half of 2015, compared with NIS 686 million in the corresponding period last year - a year-over-year increase of 5.1%.

The increase in commission revenues is due to continued business growth, including increase in revenues from clients' securities operations, from foreign currency trade operations and despite the negative impact of various regulatory provisions.

Other revenues in the second quarter of 2015 amounted to NIS 10 million, compared to NIS 7 million in the corresponding period last year, an increase of NIS 3 million.

Other revenues amounted to NIS 31 million in the first half of 2015, compared with NIS 16 million in the corresponding period last year - an increase of NIS 15 million

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Other revenues include the effect of the Bank’s operating results in conjunction with asset reorganization and improvements to the branch network in the first quarter of 2015.

Operating and other expenses amounted to NIS 825 million in the second quarter of 2015, compared with NIS 742 million(1) in the corresponding period last year - an increase of 11.2%.

Operating and other expenses amounted to NIS 1,586 million in the **first half** of 2015, compared with NIS 1,462(1) million in the corresponding period last year - an increase of 8.5%.

The increase in operating and other expenses includes: Increase in payroll and associated expenses over the corresponding period last year, attributed to employee stock option plans and to decrease in capitalization of software development cost, expenses with respect to services of external experts in conjunction with the US DOJ inquiry(2) and increase in stock exchange commissions compared to the year-ago period, concurrently with increased volume of securities transactions. See explanation below.

(1) 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) See Note 7.C.4 to the financial statements for information.

Payroll and associated expenses amounted to NIS 492 million in the second quarter of 2015, compared with NIS 460 million[(1)] in the corresponding period last year - an increase of 7.0%.

Payroll and associated expenses amounted to NIS 958 million in the first half of 2015, compared with NIS 912 million[(1)] in the corresponding period last year - an increase of 5.0%.

The increase in payroll and associated expenses over the corresponding period last year is attributed to employee stock option plans and to decrease in capitalization of software development cost.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 174 million in the second quarter of 2015, similar to the corresponding period last year[(1)].

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 348 million in the first half of 2015, compared with NIS 342 million[(1)] in the corresponding period last year - an increase by 1.8%.

Other expenses in the second quarter of 2015 amounted to NIS 159 million, compared to NIS 108 million in the corresponding period last year.

Other expenses in the first half of 2015 amounted to NIS 280 million, compared to NIS 208 million in the corresponding period last year. See explanation above.

Cost-Income ratio information is as follows[(2)] (in percent):

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

	First half of		All of
	2015	2014	2014
Cost-Income Ratio[(1)(2)]	60.7	60.5	60.9

Pre-tax profit for the Group in the second quarter of 2015 amounted to NIS 547 million, compared to NIS 501 million[(1)] in the corresponding period last year – an increase of 9.2%. See detailed explanation above.

Pre-tax profit for the Group amounted to NIS 952 million in the first half of 2015, compared with NIS 937 million[(1)] in the corresponding period last year - an increase of 1.6%. See detailed explanation above.

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

The provision for taxes in the second quarter of 2015 amounted to NIS 204 million, compared to NIS 187 million[(1)] in the corresponding period last year – an increase of 9.1%. The rate of provision for taxes on pre-tax profit in the second quarter of 2015 was 37.3% - similar to the corresponding period last year.

The provision for taxes in the first half of 2015 amounted to NIS 351 million, compared to NIS 347 million[(1)] in the corresponding period last year. The rate of provision for taxes on pre-tax profit in the first half of 2015 was 36.9% - compared to 37.0% in the corresponding period last year.

The Bank's share of after-tax profit of associates in the second quarter of 2015 amounted to nil, compared to profit amounting to NIS 2 million in the corresponding quarter last year.

The Bank's share of after-tax profit of associates in the first half of 2015 amounted to a loss of NIS 1 million, compared to a profit amounting to NIS 3 million in the corresponding period last year.

The share of non-controlling interest in net results of subsidiaries in the second quarter of 2015 amounted to NIS 13 million, compared to NIS 9 million in the corresponding quarter last year - an increase which reflects the share of non-controlling interest in increased profit at Bank Yahav.

The share of non-controlling interest in net results of subsidiaries in the first half of 2015 amounted to NIS 22 million, compared to NIS 17 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the second quarter of 2015 amounted to NIS 244 million, compared to NIS 307 million[(1)] in the corresponding period last year**. An increase of 7.5%.**

Net profit attributable to shareholders of the Bank in the first half of 2015, amounted to NIS 578 million compared with NIS 576 million[(1)] in the corresponding period last year - an increase of NIS 2 million.

Other comprehensive income (loss) attributable to shareholders of the Bank in the second quarter of 2015 amounted to a loss of NIS 70 million, compared to a loss of NIS 17 million[(1)] in the corresponding period last year.

Other comprehensive loss attributable to shareholders of the Bank in the first half of 2015 amounted to of NIS 86 million, compared to a loss of NIS 29 million[(1)] in the corresponding period last year.

The change in other comprehensive loss is primarily due to adjustments with respect to presentation of available-for-Sale Securities at fair value, due to significant changes in the interest rate curve associated with Israeli Government debentures in the first half of this year (lower interest rate in the first quarter and higher interest rate in the second quarter).

(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.

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

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

	First half of		All of
	2015	2014	2014
Net return on equity[(4)]	10.8	11.9	10.6

(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 Conduct of Banking Business Regulation 329 concerning "Restrictions on provision of housing loans" on Tier I equity as from January 1, 2015, see Note 5.K. to the financial statements and the chapter "Legislation and Supervision of Bank Group Operations" below.

(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. According to these directives, capital adequacy data only include retroactive application with regard to capitalization of software costs only.

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

Earnings per share

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

	Second Quarter		For the first six months		All of
	2015	2014	2015	2014	2014
Basic earnings per share[(1)]	1.43	1.33	2.50	2.51	4.74
Diluted earnings per share[(1)]	1.42	1.32	2.50	2.49	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.

Development of balance sheet items

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2015	2014	2014	2014	2014
Balance sheet total[(1)]	201,764	188,105	198,513	7.3	1.6
Loans to the public, net	152,317	143,353	147,569	6.3	3.2
Deposits from the public	153,736	148,063	152,379	3.8	0.9
Securities	15,833	9,744	14,259	-	11.0
Shareholders' equity[(1)]	11,266	10,237	10,797	10.1	4.3

(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.

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of June 30, 2015 accounted for 75% of total assets, compared to 74% at the end of 2014. Loans to the public, net for the Group increased in the first half of 2015 by NIS 4.7 billion, or 3.2% (increase by 6.3% compared to the end of the corresponding period last year).

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

\				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2015	2014	2014	2014	2014
Israeli currency					
Non-linked	89,041	78,726	82,823	13.1	7.5
CPI- linked	51,978	53,073	52,876	(2.1)	(1.7)
Foreign currency and foreign currency linked	11,298	11,554	11,870	(2.2)	(4.8)
Total	**152,317**	**143,353**	**147,569**	**6.3**	**3.2**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
Operating segment	2015	2014	2014	2014	2014
Retail banking:					
Mortgages	95,941	88,212	91,581	8.8	4.8
Households	21,387	19,541	20,462	9.4	4.5
Small business	9,435	8,303	9,018	13.6	4.6
Total retail	126,763	116,056	121,061	9.2	4.7
Private banking	873	961	1,051	(9.2)	(16.9)
Commercial banking	4,465	4,359	4,240	2.4	5.3
Business banking	20,216	21,977	21,217	(8.0)	(4.7)
Total – business and others	25,554	27,297	26,508	(6.4)	(3.6)
Total	152,317	143,353	147,569	6.3	3.2

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 losses:

Reported amounts	As of June 30, 2015			June 30, 2014			As of December 31, 2014		
(NIS in millions)	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problematic credit risk									
Impaired credit risk	843	173	1,016	1,074	231	1,305	781	172	953
Inferior credit risk	76	-	76	90	-	90	110	-	110
Credit risk under special supervision(2)	1,323	330	1,653	1,403	129	1,532	1,162	50	1,212
Total troubled credit risk	2,242	503	2,745	2,567	360	2,927	2,053	222	2,275
Of which: Non-impaired debt in arrears 90 days or longer(2)	1,028			1,103			1,001		
2. Non-performing assets(3)	796			987			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.

(2) 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 969 million (as of June 30, 2014 - NIS 1,048 million; as of December 31, 2014 - NIS 945 million).

(3) Non-accruing assets.

For more details of problematic credit risk, see Note 3 to the financial statements.

Below are key risk benchmarks with respect to loans to the public (in percent):

	June 30, 2015	June 30, 2014	December 31, 2014
Ratio of impaired loans to the public to total loans to the public	0.5	0.7	0.5
Ratio of impaired loans to the public to total non-housing loans	1.6	2.1	1.5
Ratio of problematic loans to the public to total non-housing loans	2.4	3.0	2.1
Ratio of housing loans in arrears 90 days or longer to total loans to the public(1)(2)	0.6	0.7	0.6
Ratio of provision for credit losses to total loans to the public	1.0	1.0	1.0
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.3	1.5	1.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.10	0.03	0.12
Ratio of net write-offs to average balance of loans to the public, net	0.06	0.06	0.11

(1) This non-housing rate is negligible.

(2) Balance of credit in arrears before provision by extent of arrears.

Below is the sector composition of the top 6 borrowers for the Group as of June 30, 2015 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	101	828	929
2.	Construction and real estate	122	698	820
3.	Construction and real estate	35	740	775
4.	Construction and real estate	517	118	635
5.	Construction and real estate	193	361	554
6.	Power	391	149	540

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.

Securities - the balance of investment in securities increased in the first half of 2015 by NIS 1.6 billion, and increased by NIS 6.1 billion compared to the corresponding period last year. The change in total investment in securities is within asset and liability management of the Bank.

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

	June 30,		December 31,	Change in % over December 31,
	2015	2014	2014	2014
Israeli currency				
Non-linked	11,905	6,058	10,192	16.8
CPI- linked	71	557	699	-
Foreign currency and foreign currency linked	3,753	3,023	3,264	15.0
Non-monetary items	104	106	104	-
Total	15,833	9,744	14,259	11.0

Investments in securities in the held-to-maturity portfolio, the available-for-sale portfolio and the held-for-trade portfolio

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

	Carrying amount as of	
	June 30, 2015	December 31, 2014
Government debentures:		
Government of Israel	13,895	13,631
US Government	1,348	115
UK Government	61	-
South Korea Government	27	-
Total government debentures	15,331	13,746
Debentures of banks in developed nations:		
UK	94	97
Israel	124	123
Germany	113	117
Other	4	5
Total debentures of banks in developed nations	335	342
Corporate debentures (composition by sector):		
Industry and production	10	10
Construction and real estate	15	16
Power and water	-	1
Public and community services	11	11
Financial services	27	29
Total corporate debentures	63	67
Shares	104	104
Total securities	15,833	14,259

For more information with regard to 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 2 to the financial statements.

Deposits from the public - these account for 76% of total consolidated balance sheet as of June 30, 2015, compared to 77% at the end of 2014. In the first half of 2015, deposits from the public with the Bank Group increased by NIS 1.4 billion, or 0.9% (increase by 3.8% over the end of the corresponding period last year).

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2015	2014	2014	2014	2014
Israeli currency					
Non-linked	98,771	95,761	98,541	3.1	0.2
CPI- linked	18,687	21,060	19,040	(11.3)	(1.9)
Foreign currency and foreign currency linked	36,278	31,242	34,798	16.1	4.3
Total	153,736	148,063	152,379	3.8	0.9

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2015	2014	2014	2014	2014
Retail banking:					
Households	68,422	62,034	65,701	10.3	4.1
Small business	12,363	10,522	11,068	17.5	11.7
Total retail	80,785	72,556	76,769	11.3	5.2
Private banking	8,367	8,670	9,090	(3.5)	(8.0)
Commercial banking	5,020	4,222	4,546	18.9	10.4
Business banking	46,592	45,708	47,117	1.9	(1.1)
Financial management	12,972	16,907	14,857	(23.3)	(12.7)
Total	153,736	148,063	152,379	3.8	0.9

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

	June 30,		December 31,
	2015	2014	2014
Maximum deposit			
Up to 1	52,359	49,146	50,887
1 to 10	32,633	29,974	31,119
Over 10 to 100	17,128	14,550	15,522
Over 100 to 500	14,954	14,513	15,511
Above 500	36,662	39,880	39,340
Total	153,736	148,063	152,379

For more information about components of deposits from the public, see Note 4 to the financial statements.

The **ratio of shareholders' equity to balance sheet total** for the Group as of June 30, 2015 was 5.58%, compared to 5.44%(1) as of the end of 2014.

(1) 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.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, as from January 1, 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 gradually being 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 1, 2017, on a consolidated basis, in conformity with data as of the reporting date, are 9.8% and 13.3%, respectively.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Banking Conduct Directives 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets. The directives are effective as from January 1, 2014, subject to transitional provisions.

For details of revised directives, resolution by the Board of Directors concerning the Bank's capital targets and the effect on the Bank's capital adequacy, see chapter "Legislation and Supervision of Bank Group Operations" below, as well as Note 5 to the financial statements.

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

	June 30, 2015	June 30, 2014	December 31, 2014
	Basel III	Basel III	Basel III
Ratio of Tier I capital to risk elements(1)	9.30	8.94	9.05
Ratio of Tier I capital to risk elements(1)	9.30	8.94	9.05
Ratio of total capital to risk elements(1)	12.86	12.99	12.97
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.10	9.00	9.00
Total minimum capital ratio required by the directives of the Supervisor of Banks(2)	12.60	12.50	12.50

(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. Tier I capital ratio as stated on the financial statements: As of June 30, 2014 - 9.00; as of December 31, 2014 - 9.12.

(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 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 current reporting date, are 9.8% and 13.3%, respectively.

Off Balance Sheet Activity

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

				Change in % ove	
		June 30,	December 31,	June 30,	December 31,
	2015	2014	2014	2014	2014
Off balance sheet financial instruments other than derivatives [1]:					
Documentary credit	319	179	345	78.2	(7.5)
Loan guarantees	2,198	2,255	2,173	(2.5)	1.2
Guarantees to home buyers	11,469	9,834	10,450	16.6	9.8
Guarantees and other liabilities	4,364	3,397	4,007	28.5	8.9
Unutilized revolving credit card facilities	7,832	7,290	7,478	7.4	4.7
Unutilized debitory account and other credit facilities in accounts available on demand	18,797	17,261	19,773	8.9	(4.9)
Irrevocable commitments for loans approved but not yet granted	12,498	9,201	11,807	35.8	5.9
Commitments to issue guarantees	6,082	6,687	7,040	(9.0)	(13.6)
Financial derivatives[2]:					
Total par value of financial derivatives	265,246	199,779	271,477	32.8	(2.3)

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 7 to the financial statements for additional information.
(2) Includes forward transactions, swaps, options and credit derivatives.

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):

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2015	2014	2014	2014	2014
Securities[1]	218,326	201,068	210,645	8.6	3.6
Assets of provident funds for which the Group provides operating services	73,661	63,791	71,649	15.5	2.8
Assets of mutual funds for which the Bank provides operating services	21,755	20,653	21,241	5.4	2.4
Assets held in trust by the Bank Group	72,238	67,696	77,849	6.7	(7.2)
Other assets under management[2]	12,908	12,615	11,701	2.3	10.3

(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. Revenues from securities transactions for the Group amounted to NIS 127 million in the first half of 2015, compared with NIS 116 million in the corresponding period last year - an increase of 9.5%.
(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.

Major Investees

The contribution of investees to net operating profit in the first half of 2015 amounted to NIS 68 million, compared with NIS 63 million in the corresponding period 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, the contribution of investees amounted to NIS 63 million, compared to NIS 66 million in the corresponding period last year - see explanation 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.

Bank Yahav's contribution to Group net profit in the first half of 2015 amounted to NIS 21.6 million, compared to NIS 17.7 million(1) in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2015 was 8.7% on annualized basis, compared to 7.3% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2015 amounted to NIS 21,582 million, compared to NIS 20,813 million as of December 31, 2014 – an increase of NIS 769 million, or 3.7%. Net loans to the public as of June 30, 2015 amounted to NIS 7,563 million, compared to NIS 7,299 million as of December 31, 2014 – an increase of NIS 264 million, or 3.6%. Net deposits from the public as of June 30, 2015 amounted to NIS 18,561 million, compared to NIS 17,793 million as of December 31, 2014 – an increase of NIS 768 million, or 4.3%.

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which manages life insurance policies and property insurance policies of clients obtaining mortgages from the Bank.

Tefahot Insurance's contribution to Group net profit in the first half of 2015 (excluding net financing revenues from excess cash) amounted to NIS 24.1 million, compared to NIS 22.7 million in the corresponding period last year.

Net profit return on equity in the first half of 2015 was 9% on annualized basis, compared to 13.8% in the corresponding period last year.

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.

(1) Restated. For details of adoption of US GAAP with regard to employee rights, see Note 1.C.1 to the financial statements.

Net profit of Mizrahi Bank Switzerland in the first half of 2015 amounted to CHF 0.3 million, compared to CHF 0.6 million in the corresponding period last year.
Mizrahi Bank Switzerland's balance sheet total as of June 30, 2015 amounted to CHF 190 million, compared to CHF 221 million at the end of 2014.
Loans to the public as of June 30, 2015 amounted to CHF 71 million, compared to CHF 76 million at end of 2014. The balance of securities as of June 30, 2015 amounted to CHF 3 million, similar to the balance at end of 2014. Deposits with banks as of June 30, 2015 amounted to CHF 113 million, compared to CHF 142 million at end of 2014. Deposits from the public as of June 30, 2015 amounted to CHF 129 million, compared to CHF 156 million at end of 2014.
These data exclude off-balance-sheet items, such as fiduciary deposits which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi Overseas Holdings to Group net profit in the first half of 2015, net of exchange rate effects, amounted to net profit of NIS 0.8 million, compared with NIS 2.9 million in the corresponding period last year. In the corresponding period last year, non-recurring revenues affected commission items.
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 7.C.4 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 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 1.8% 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 June 30, 2015 amounted to NIS 109 million, compared to NIS 123 million at end of 2014. Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first half of 2015 to NIS 2.3 million for the Bank, compared to NIS 10.2 million in the corresponding period last year.

Financial Information Regarding Operating Segments

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 details of the amendment to Public Reporting Directives with regard to supervisory operating segments, see Note 1.D.1 to the financial statements.

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 Financial 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 three 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.

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 construction of real estate projects by the closed financing method.

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.

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2014.

Note 13 to the financial statements includes a reporting of Bank Group business results by operating segment.

Below is a summary of financial results by operating segment (NIS in millions, in reported amounts):

	Net profit in the first half		Share of total net profit (in percent) for the first six months		Return on equity (in %) in the first half	
	2015	2014	2015	2014	2015	2014
Household:						
Mortgages	207	186	34.6	30.3	8.7	8.9
Other	51	63	8.5	10.3	8.0	11.0
Private banking	15	10	2.5	1.6	38.6	30.0
Small business	60	61	10.0	10.0	21.0	26.1
Commercial banking	32	32	5.4	5.2	15.2	15.7
Business banking	233	261	39.0	42.6	13.8	16.9
Financial management	(20)	(37)	-	-	-	-
Total	578	576	100.0	100.0	10.8	11.9

(1) 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 are Bank Group operating results by operating segment

Results of Household Segment

	For the six months ended June 30, 2015					For the six months ended June 30, 2014				
	Banking and finance	Credit cards	Capital market	Mort-gages	Total	Banking and finance	Credit cards	Capital market	Mort-gages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	364	11	-	990	1,365	216	12	-	1,149	1,377
Inter-segment	195	(2)	-	(593)	(400)	344	(2)	-	(800)	(458)
Total interest revenues, net	559	9	-	397	965	560	10	-	349	919
Non-interest financing revenues	-	-	2	-	2	-	-	3	-	3
Commissions and other revenues	104	68	105	87	364	105	66	93	89	353
Total revenues	663	77	107	484	1,331	665	76	96	438	1,275
Expenses with respect to credit losses	13	-	-	6	19	17	-	-	7	24
Operating and other expenses										
From outside operating segments	728	11	36	150	925	701	12	35	136	884
Inter-segment	(56)	(1)	-	-	(57)	(55)	(1)	-	-	(56)
Total operating and other expenses	672	10	36	150	868	646	11	35	136	828
Pre-tax profit	(22)	67	71	328	444	2	65	61	295	423
Provision for taxes on profit	(9)	26	26	121	164	1	24	23	109	157
After-tax profit	(13)	41	45	207	280	1	41	38	186	266
Net profit (loss):										
Before attribution to non-controlling interest	(13)	41	45	207	280	1	41	38	186	266
Attributable to non-controlling interest	(22)	-	-	-	(22)	(17)	-	-	-	(17)
Attributable to shareholders of the banking corporation	(35)	41	45	207	258	(16)	41	38	186	249
Return on capital (net profit as % of average capital)					8.5%					9.4%
Average balance of assets	17,611	2,753	-	93,678	114,042	16,520	2,823	-	86,014	105,357
Average balance of liabilities	66,386	2,753	-	6	69,145	61,454	2,823	-	122	64,399
Average balance of risk assets	17,010	-	-	52,837	69,847	15,894	-	-	47,595	63,489
Average balance of securities	-	-	39,662	-	39,662	-	-	37,872	-	37,872
Average balance of loans to the public	17,605	2,753	-	93,435	113,793	16,199	2,823	-	86,007	105,029
Average balance of deposits from the public	66,532	-	-	-	66,532	61,267	-	-	-	61,267
Loans to the public (end balance)	18,308	3,075	-	95,945	117,328	16,574	2,967	-	88,212	107,753
Deposits from the public (end balance)	68,422	-	-	-	68,422	62,034	-	-	-	62,034
Average balance of other assets managed	2,016	-	-	7,342	9,358	1,313	-	-	8,738	10,051
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	450	9	-	380	839	385	10	-	322	717
Margin from activities of receiving deposits	107	-	-	-	107	173	-	-	-	173
Other	2	-	-	17	19	2	-	-	27	29
Total interest revenues, net	559	9	-	397	965	560	10	-	349	919

Contribution of the household segment to Group profit in the first half of 2015 amounted to NIS 258 million, compared to

NIS 249 million in the corresponding period last year. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first half of 2015 amounted to NIS 207 million, compared to NIS 186 million in the corresponding period last year - an increase of 11.3%. Net interest revenues before expenses with respect to credit losses amounted to NIS 397 million, compared to NIS 48 million in the corresponding period last year, an increase of NIS 49 million - primarily due to an increase in mortgage business volume - reflected in an increase of NIS 7.4 billion in the average loan balance. Provision for credit losses was essentially unchanged over the year-ago period, as were commissions and other revenues. Operating and other expenses increased by 10.3% due to increased mortgage business.

Contribution of the household segment (excluding mortgages) in the first half of 2015 amounted to NIS 51 million, compared to NIS 63 million in the corresponding period last year - a decrease of NIS 12 million. Net interest revenues before expenses with respect to credit losses decreased by NIS 2 million, due to erosion of deposit margins due to the low interest rate environment, along with higher lending margins due to increased credit volume. Commissions and other revenues increased by NIS 13 million, primarily due to clients' capital market operations. Expenses with respect to credit losses amounted to expense of NIS 13 million, compared to expense of NIS 17 million in the corresponding period last year. Operating expenses increased by 3.8% compared to the corresponding period last year, 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 cost- see Note 1.C.1 and 1.C.2. to the financial statements.

Results of Household Segment

	For the three months ended June 30, 2015					For the three months ended June 30, 2014				
	Banking and finance	Credit cards	Capital market	Mort-gages	Total	Banking and finance	Credit cards	Capital market	Mort-gages	Total
										NIS in millions
From outside operating segments	119	5	-	1,149	1,273	47	6	-	858	911
Inter-segment	166	(1)	-	(942)	(777)	240	(1)	-	(677)	(438)
Total interest revenues, net	285	4	-	207	496	287	5	-	181	473
Non-interest financing revenues	-	-	1	-	1	-	-	1	-	1
Commissions and other revenues	53	35	51	43	182	52	32	47	45	176
Total revenues	338	39	52	250	679	339	37	48	226	650
Expenses with respect to credit losses	9	-	-	10	19	13	-	-	7	20
Operating and other expenses										
From outside operating segments	374	5	19	79	477	359	6	18	69	452
Inter-segment	(30)	-	-	-	(30)	(28)	-	-	-	(28)
Total operating and other expenses	344	5	19	79	447	331	6	18	69	424
Pre-tax profit	(15)	34	33	161	213	(5)	31	30	150	206
Provision for taxes on profit	(5)	13	12	60	80	(1)	11	12	55	77
After-tax profit	(10)	21	21	101	133	(4)	20	18	95	129
Net profit (loss):										
Before attribution to non-controlling interest	(10)	21	21	101	133	(4)	20	18	95	129
Attributable to non-controlling interest	(13)	-	-	-	(13)	(9)	-	-	-	(9)
Attributable to shareholders of the banking corporation	(23)	21	21	101	120	(13)	20	18	95	120
Return on capital (net profit as % of average capital)					7.8%					8.8%
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	228	4	-	197	429	198	5	-	168	371
Margin from activities of receiving deposits	56	-	-	-	56	87	-	-	-	87
Other	1	-	-	10	11	2	-	-	13	15
Total interest revenues, net	285	4	-	207	496	287	5	-	181	473

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First half of		
	2015	2014	Change (in %)
Mortgages originated (for housing and for any purpose)			
From Bank funds	11,579	9,540	21.4
From Treasury funds:			
Directed loans	43	69	(37.7)
Standing loans and grants	77	100	(23.0)
Total new loans	11,699	9,709	20.5
Re-financed loans	2,851	1,400	103.6
Total loans originated	14,550	11,109	31.0
Number of borrowers (includes re-financed loans)	30,718	22,722	35.2

Results of Private Banking Segment

	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	5	-	5	13	-	13
Inter-segment	25	-	25	16	-	16
Total interest revenues, net	30	-	30	29	-	29
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	26	10	36	19	12	31
Total revenues	56	10	66	48	12	60
Expenses with respect to credit losses	2	-	2	2	-	2
Operating and other expenses						
From outside operating segments	38	1	39	39	-	39
Inter-segment	1	-	1	3	-	3
Total operating and other expenses	39	1	40	42	-	42
Pre-tax profit	15	9	24	4	12	16
Provision for taxes on profit	6	3	9	2	4	6
Net profit attributable to shareholders of the banking corporation	9	6	15	2	8	10
Return on capital (net profit as % of average capital)			38.6%			30.0%
Average balance of assets	1,903	-	1,903	1,857	-	1,857
Average balance of liabilities	9,195	-	9,195	8,030	-	8,030
Average balance of risk assets	919	-	919	797	-	797
Average balance of securities	-	3,139	3,139	-	2,216	2,216
Average balance of loans to the public	1,002	-	1,002	940	-	940
Average balance of deposits from the public	8,615	-	8,615	7,388	-	7,388
Loans to the public, net (end balance)	873	-	873	961	-	961
Deposits from the public (end balance)	8,367	-	8,367	8,670	-	8,670
Average balance of other assets managed	6	-	6	7	-	7
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	12	-	12	12	-	12
Margin from activities of receiving deposits	18	-	18	17	-	17
Other	-	-	-	-	-	-
Total interest revenues, net	30	-	30	29	-	29

Contribution of the private banking segment to Group profit in the first half of 2015 amounted to NIS 15 million, compared to NIS 10 million in the corresponding period last year - an increase of NIS 5 million.

Below are key factors affecting the change in segment contribution:

Interest revenues, net before expenses with respect to credit losses were essentially unchanged from the corresponding period last year. Commission and other revenues amounted to NIS 36 million in the first half of 2015, compared with NIS 31 million in the corresponding period last year - an increase primarily due to increase in operating commissions. Expenses with respect to credit losses were unchanged compared to the corresponding period last year.

Operating and other expenses decreased by NIS 2 million compared to the corresponding period last year. 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 Note 1.C.1 and 1.C.2 t the financial statements.

Results of Private Banking Segment

	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(1)	-	(1)	3	-	3
Inter-segment	16	-	16	12	-	12
Total interest revenues, net	15	-	15	15	-	15
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	13	5	18	10	7	17
Total revenues	28	5	33	25	7	32
Expenses with respect to credit losses	1	-	1	2	-	2
Operating and other expenses						
From outside operating segments	18	1	19	20	-	20
Inter-segment	-	-	-	-	-	-
Total operating and other expenses	18	1	19	20	-	20
Pre-tax profit	9	4	13	3	7	10
Provision for taxes on profit	4	1	5	2	2	4
Net profit attributable to shareholders of the banking corporation	5	3	8	1	5	6
Return on capital (net profit as % of average capital)			46.4%			36.2%
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	6	-	6	6	-	6
Margin from activities of receiving deposits	9	-	9	9	-	9
Other	-	-	-	-	-	-
Total interest revenues, net	15	-	15	15	-	15

Results of the Small Business Segment

	For the six months ended June 30, 2015				For the six months ended June 30, 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	258	4	-	262	238	4	-	242
Inter-segment	5	(1)	-	4	9	(1)	-	8
Total interest revenues, net	263	3	-	266	247	3	-	250
Non-interest financing revenues	-	-	1	1	-	-	-	-
Commissions and other revenues	109	9	8	126	97	9	8	114
Total revenues	372	12	9	393	344	12	8	364
Expenses with respect to credit losses	58	-	-	58	43	-	-	43
Operating and other expenses								
From outside operating segments	263	2	3	268	246	2	2	250
Inter-segment	(28)	-	-	(28)	(26)	-	-	(26)
Total operating and other expenses	235	2	3	240	220	2	2	224
Pre-tax profit	79	10	6	95	81	10	6	97
Provision for taxes on profit	29	4	2	35	30	4	2	36
Net profit attributable to shareholders of the banking corporation	50	6	4	60	51	6	4	61
Return on capital (net profit as % of average capital)				21.0%				26.1%
Average balance of assets	8,864	408	-	9,272	7,662	355	-	8,017
Average balance of liabilities	12,038	408	-	12,446	9,854	355	-	10,209
Average balance of risk assets	6,531	-	-	6,531	5,545	-	-	5,545
Average balance of securities	-	-	14,433	14,433	-	-	11,026	11,026
Average balance of loans to the public	8,658	408	-	9,066	7,574	355	-	7,929
Average balance of deposits from the public	12,036	-	-	12,036	9,804	-	-	9,804
Loans to the public, net (end balance)	9,022	413	-	9,435	7,921	382	-	8,303
Deposits from the public (end balance)	12,363	-	-	12,363	10,522	-	-	10,522
Average balance of other assets managed	138	-	-	138	180	-	-	180
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	244	-	-	244	211	-	-	211
Margin from activities of receiving deposits	15	-	-	15	27	-	-	27
Other	4	3	-	7	9	3	-	12
Total interest revenues, net	263	3	-	266	247	3	-	250

Contribution of the small business segment to Group profit in the first half of 2015 amounted to NIS 60 million, essentially unchanged from the corresponding period last year. Below are key factors affecting the change in segment contribution: Net interest revenues amounted to NIS 266 million, compared to NIS 250 million in the corresponding period last year, an increase of 6.4% – primarily due to an increase in credit volume, along with lower interest spreads from deposits due to the low interest rate environment.

Expenses with respect to credit losses amounted to NIS 58 million, compared to NIS 43 million in the corresponding period last year, an increase of NIS 15 million - primarily attributed to an increase in group-based provisions in this segment due to an increase in credit volume. Commissions and other revenues increased by NIS 12 million, due to increased business volume in this segment. Operating expenses increased by 7.1%, 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 re-stated. For more information about the Supervisor of Banks' directives concerning employee rights and concerning capitalization of software cost- see Note 1.C.1 and 1.C.2. to the financial statements.

Results of the Small Business Segment

	For the three months ended June 30, 2015				For the three months ended June 30, 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	116	2	-	118	116	2	-	118
Inter-segment	18	(1)	-	17	10	(1)	-	9
Total interest revenues, net	134	1	-	135	126	1	-	127
Non-interest financing revenues	-	-	1	1	-	-	-	-
Commissions and other revenues	54	5	4	63	50	5	4	59
Total revenues	188	6	5	199	176	6	4	186
Expenses with respect to credit losses	29	-	-	29	21	-	-	21
Operating and other expenses								
From outside operating segments	136	1	2	139	124	1	1	126
Inter-segment	(16)	-	-	(16)	(13)	-	-	(13)
Total operating and other expenses	120	1	2	123	111	1	1	113
Pre-tax profit	39	5	3	47	44	5	3	52
Provision for taxes on profit	15	2	1	18	17	2	1	20
Net profit attributable to shareholders of the banking corporation	24	3	2	29	27	3	2	32
Return on capital (net profit as % of average capital)				20.1%				27.9%
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	124	-	-	124	109	-	-	109
Margin from activities of receiving deposits	7	-	-	7	13	-	-	13
Other	3	1	-	4	4	1	-	5
Total interest revenues, net	134	1	-	135	126	1	-	127

Results of the Commercial Banking Segment

	For the six months ended June 30, 2015				For the six months ended June 30, 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	83	-	-	83	90	-	-	90
Inter-segment	(1)	-	-	(1)	(9)	-	-	(9)
Total interest revenues, net	82	-	-	82	81	-	-	81
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	24	1	3	28	20	1	3	24
Total revenues	106	1	3	110	101	1	3	105
Expenses with respect to credit losses	6	-	-	6	(4)	-	-	(4)
Operating and other expenses								
From outside operating segments	25	-	-	25	28	-	-	28
Inter-segment	30	-	-	30	30	-	-	30
Total operating and other expenses	55	-	-	55	58	-	-	58
Pre-tax profit	45	1	3	49	47	1	3	51
Provision for taxes on profit	16	-	1	17	18	-	1	19
Net profit attributable to shareholders of the banking corporation	29	1	2	32	29	1	2	32
Return on capital (net profit as % of average capital)				15.2%				15.7%
Average balance of assets	4,418	49	-	4,467	4,369	45	-	4,414
Average balance of liabilities	4,905	49	-	4,954	3,850	45	-	3,895
Average balance of risk assets	4,738	-	-	4,738	4,732	-	-	4,732
Average balance of securities	-	-	4,176	4,176	-	-	4,506	4,506
Average balance of loans to the public	4,273	49	-	4,322	4,365	45	-	4,410
Average balance of deposits from the public	4,902	-	-	4,902	3,832	-	-	3,832
Loans to the public, net (end balance)	4,415	50	-	4,465	4,313	46	-	4,359
Deposits from the public (end balance)	5,020	-	-	5,020	4,222	-	-	4,222
Average balance of other assets managed	243	-	-	243	336	-	-	336
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	76	-	-	76	72	-	-	72
Margin from activities of receiving deposits	4	-	-	4	7	-	-	7
Other	2	-	-	2	2	-	-	2
Total interest revenues, net	82	-	-	82	81	-	-	81

Contribution of the commercial banking segment to Group profit in the first half of 2015 amounted to NIS 32 million, similar to the corresponding period last year. These are the major factors affecting changes in various profit and loss items for the segment: Interest revenues, net, amounted to NIS 82 million, a NIS 1 million increase over the corresponding period last year. Commission and other revenues increased by NIS 4 million compared to the corresponding period last year. Expenses with respect to credit losses in the current period amounted to an expense of

NIS 6 million, compared to a decrease in expense of NIS 4 million in the corresponding period last year. The decrease in expense in the corresponding period is attributed to collection from a number of single clients. Total operating 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 change in attribution of indirect expenses to this segment.

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 cost- see Note 1.C.1 and 1.C.2. to the financial statements.

Results of the Commercial Banking Segment

	For the three months ended June 30, 2015				For the three months ended June 30, 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	42	-	-	42	43	-	-	43
Inter-segment	(1)	-	-	(1)	(3)	-	-	(3)
Total interest revenues, net	41	-	-	41	40	-	-	40
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	12	-	2	14	10	-	1	11
Total revenues	53	-	2	55	50	-	1	51
Expenses with respect to credit losses	(2)	-	-	(2)	(3)	-	-	(3)
Operating and other expenses								
From outside operating segments	11	-	-	11	12	-	-	12
Inter-segment	16	-	-	16	15	-	-	15
Total operating and other expenses	27	-	-	27	27	-	-	27
Pre-tax profit	28	-	2	30	26	-	1	27
Provision for taxes on profit	9	-	1	10	10	-	-	10
Net profit attributable to shareholders of the banking corporation	19	-	1	20	16	-	1	17
Return on capital (net profit as % of average capital)				19.3%				17.3%
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	37	-	-	37	36	-	-	36
Margin from activities of receiving deposits	2	-	-	2	4	-	-	4
Other	2	-	-	2	-	-	-	-
Total interest revenues, net	41	-	-	41	40	-	-	40

Results of the Business Banking Segment

	For the six months ended June 30, 2015				For the six months ended June 30, 2014			
	Banking and finance	Capital market	Construction and real estate	Total	Banking and finance	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	157	-	163	320	74	-	188	262
Inter-segment	95	-	(31)	64	177	-	(53)	124
Total interest revenues, net	252	-	132	384	251	-	135	386
Non-interest financing revenues	10	5	-	15	7	5	-	12
Commissions and other revenues	43	11	67	121	39	11	66	116
Total revenues	305	16	199	520	297	16	201	514
Expenses with respect to credit losses	32	-	(40)	(8)	(17)	-	(28)	(45)
Operating and other expenses								
From outside operating segments	94	3	16	113	85	3	15	103
Inter-segment	38	-	8	46	34	-	7	41
Total operating and other expenses	132	3	24	159	119	3	22	144
Pre-tax profit	141	13	215	369	195	13	207	415
Provision for taxes on profit	52	5	79	136	72	5	77	154
Net profit (loss) attributable to shareholders of the banking corporation	89	8	136	233	123	8	130	261
Return on capital (net profit as % of average capital)				13.8%				16.9%
Average balance of assets	19,180	-	7,912	27,092	16,997	-	8,055	25,052
Average balance of liabilities	44,637	-	2,838	47,475	42,349	-	2,641	44,990
Average balance of risk assets	17,861	-	20,102	37,963	18,260	-	19,330	37,590
Average balance of securities	-	77,935	-	77,935	-	66,539	-	66,539
Average balance of loans to the public	14,445	-	7,653	22,098	15,440	-	8,023	23,463
Average balance of deposits from the public	44,520	-	2,821	47,341	42,146	-	2,441	44,587
Loans to the public, net (end balance)	12,883	-	7,333	20,216	13,835	-	8,142	21,977
Deposits from the public (end balance)	43,345	-	3,247	46,592	43,234	-	2,474	45,708
Average balance of other assets managed	1,188	-	597	1,785	188	-	33	221
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	212	-	125	339	196	-	112	308
Margin from activities of receiving deposits	29	-	3	30	44	-	6	50
Other	11	-	4	15	11	-	17	28
Total interest revenues, net	252	-	132	384	251	-	135	386

Contribution of the business banking segment to Group profit in the first half of 2015 amounted to NIS 233 million, compared to NIS 261 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 in the first half of 2015 by NIS 6 million, or 4.6%, over the corresponding period last year. Interest revenues, net amounted to NIS 132 million, compared to NIS 135 million in the corresponding period last year - a decrease of 2.2%, primarily attributed to lower deposit margins due to the low interest environment in the economy. Expenses with respect to credit losses amounted to a decrease in expense of NIS 40 million, compared to a decrease in expense of NIS 28 million in the corresponding period last year. The decrease in expenses in both these periods is attributed to collection of debt previously written-off. Commission and other revenues increased by NIS 1 million compared to the corresponding period last year.

Contribution of business banking excluding construction and real estate decreased by NIS 34 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 4 million year over year. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, amounted to NIS 32 million, compared to a decrease in expense amounting to NIS 17 million in the corresponding period last year. Expenses in the current period are primarily due to an increase in provision with respect to a few clients and to an increase in group-based provision rate. The decrease in expense in the corresponding period is also attributed to collection from a number of single clients. Commissions and other revenues increased by NIS 4 million compared to the corresponding period last year, attributed to increased commissions from financing business.

Total operating and other expenses attributed to business banking, excluding construction and real estate, increased by 10.7% 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 cost- see Note 1.C.1 and 1.C.2. to the financial statements.

Results of the Business Banking Segment

	For the three months ended June 30, 2015				For the three months ended June 30, 2014			
	Banking and finance	Capital market	Construction and real estate	Total	Banking and finance	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	58	-	78	136	21	-	97	118
Inter-segment	68	-	(11)	57	101	-	(26)	75
Total interest revenues, net	126	-	67	193	122	-	71	193
Non-interest financing revenues	6	2	-	8	5	2	-	7
Commissions and other revenues	32	5	23	60	19	7	30	56
Total revenues	164	7	90	261	146	9	101	256
Expenses with respect to credit losses	8	-	(12)	(4)	6	-	(19)	(13)
Operating and other expenses								
From outside operating segments	45	2	9	56	44	1	8	53
Inter-segment	21	-	4	25	19	-	3	22
Total operating and other expenses	66	2	13	81	63	1	11	75
Pre-tax profit	90	5	89	184	77	8	109	194
Provision for taxes on profit	34	2	33	69	29	3	41	73
Net profit (loss) attributable to shareholders of the banking corporation	56	3	56	115	48	5	68	121
Return on capital (net profit as % of average capital)				14.2%				15.0%
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	111	-	61	174	96	-	57	153
Margin from activities of receiving deposits	15	-	1	14	23	-	3	26
Other	-	-	5	5	3	-	11	14
Total interest revenues, net	126	-	67	193	122	-	71	193

Financial Management Segment results

	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(254)	-	(254)	(348)	-	(348)
Inter-segment	308	-	308	319	-	319
Total interest revenues, net	54	-	54	(29)	-	(29)
Non-interest financing revenues	57	5	62	61	3	64
Commissions and other revenues	51	26	77	41	23	64
Total revenues	162	31	193	73	26	99
Expenses with respect to credit losses	(2)	-	(2)	(2)	-	(2)
Operating and other expenses						
From outside operating segments	213	3	216	155	3	158
Inter-segment	8	-	8	8	-	8
Total operating and other expenses	221	3	224	163	3	166
Pre-tax profit (loss)	(57)	28	(29)	(88)	23	(65)
Provision for taxes on profit (loss)	(21)	11	(10)	(33)	8	(25)
After-tax profit (loss)	(36)	17	(19)	(55)	15	(40)
Share in net profits of associates, after tax	(1)	-	(1)	3	-	3
Net profit (loss):						
Before attribution to non-controlling interest	(37)	17	(20)	(52)	15	(37)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to shareholders of the banking corporation	(37)	17	(20)	(52)	15	(37)
Return on capital (net profit as % of average capital)			-			-
Average balance of assets	42,013	-	42,013	37,543	-	37,543
Of which: Investments in associates	38	-	38	61	-	61
Average balance of liabilities	46,065	-	46,065	42,066	-	42,066
Average balance of risk assets	5,556	-	5,556	5,046	-	5,046
Average balance of provident and mutual fund assets	95,869	-	95,869	78,174	-	78,174
Average balance of securities	-	85,645	85,645	-	72,251	72,251
Average balance of deposits from the public	13,957	-	13,957	17,294	-	17,294
Deposits from the public (end balance)	12,972	-	12,972	16,907	-	16,907
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	54	-	54	(29)	-	(29)
Total interest revenues, net	54	-	54	(29)	-	(29)

Contribution of the financial management segment to Group profit in the first half of 2015 amounted to a loss of NIS 20 million, compared to a loss of NIS 37 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 81 million, primarily due to the effect of the CPI, 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 were unchanged from the year-ago period. Commission and other revenues increased by NIS 13 million compared to the corresponding period last year. Other revenues for this segment include the effect of Bank operating results in conjunction with asset reorganization and improvements to the branch network in the first quarter of 2015. Operating and other expenses increased by NIS 58 million. The increase in operating and other expenses includes: Increase in payroll and associated expenses over the corresponding period last year, attributed to employee stock option plans and to decrease in capitalization of software development cost, expenses with respect to services of external experts in conjunction with the US DOJ inquiry and increase in stock exchange commissions, concurrently with increased volume of securities transactions. 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 cost- see Note 1.C.1 and 1.C.2. to the financial statements.

Financial Management Segment results

	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(486)	-	(486)	(270)	-	(270)
Inter-segment	688	-	688	345	-	345
Total interest revenues, net	202	-	202	75	-	75
Non-interest financing revenues	(58)	3	(55)	(11)	1	(10)
Commissions and other revenues	24	14	38	15	11	26
Total revenues	168	17	185	79	12	91
Expenses with respect to credit losses	(3)	-	(3)	(4)	-	(4)
Operating and other expenses						
From outside operating segments	121	2	123	77	2	79
Inter-segment	5	-	5	4	-	4
Total operating and other expenses	126	2	128	81	2	83
Pre-tax profit (loss)	45	15	60	2	10	12
Provision for taxes on profit (loss)	16	6	22	-	3	3
After-tax profit (loss)	29	9	38	2	7	9
Share in net profits of associates, after tax	-	-	-	2	-	2
Net profit (loss):						
Before attribution to non-controlling interest	29	9	38	4	7	11
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to shareholders of the banking corporation	29	9	38	4	7	11
Return on capital (net profit as % of average capital)			66.8%			18.3%
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	202	-	202	75	-	75
Total interest revenues, net	202	-	202	75	-	75

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 six months ended June 30, 2015			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	9	3	-	12
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	68	9	1	78
Total revenues	77	12	1	90
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	10	2	-	12
Pre-tax profit	67	10	1	78
Provision for taxes on profit	26	4	-	30
Net profit	41	6	1	48

	For the six months ended June 30, 2014			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	10	3	-	13
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	66	9	1	76
Total revenues	76	12	1	89
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	11	2	-	13
Pre-tax profit	65	10	1	76
Provision for taxes on profit	24	4	-	28
Net profit	41	6	1	48

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 six months ended June 30, 2015						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	1	-	5	5	13
Commissions and other revenues	105	10	8	3	11	26	163
Total revenues	107	10	9	3	16	31	176
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	36	1	3	-	3	3	46
Pre-tax profit	71	9	6	3	13	28	130
Provision for taxes on profit	26	3	2	1	5	11	48
Net profit	45	6	4	2	8	17	82

	For the six months ended June 30, 2014						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	3	-	-	-	5	3	11
Commissions and other revenues	93	12	8	3	11	23	150
Total revenues	96	12	8	3	16	26	161
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	35	-	2	-	3	3	43
Pre-tax profit	61	12	6	3	13	23	118
Provision for taxes on profit	23	4	2	1	5	8	43
Net profit	38	8	4	2	8	15	75

International Operations

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to foreign residents and to Israeli clients who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. 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 clients full 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.
For details of local supervision of Bank affiliates overseas, see chapter on international operations in the Board of Directors' Report included with the financial statements as of December 31, 2014.

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

	For the six months ended June 30, 2015				
	Households	Private banking	Business banking	Financial management	Total
Interest revenues, net	3	26	31	14	74
Non-interest financing revenues	-	-	1	4	5
Commissions and other revenues	-	30	4	1	35
Total revenues	3	56	36	19	114
Reduced expenses with respect to credit losses	-	2	-	-	2
Operating and other expenses	2	35	22	4	63
Pre-tax profit	1	19	14	15	49
Provision for taxes on profit	-	7	5	6	18
Net profit	1	12	9	9	31

	For the six months ended June 30, 2014				
	Households	Private banking	Business banking	Financial management	Total
Interest revenues, net	2	24	25	13	64
Non-interest financing revenues	-	-	1	1	2
Commissions and other revenues	-	24	3	1	28
Total revenues	2	48	29	15	94
Reduced expenses with respect to credit losses	-	1	-	-	1
Operating and other expenses	1	34	20	3	58
Pre-tax profit	1	13	9	12	35
Provision for taxes on profit	-	5	3	4	12
Net profit	1	8	6	8	23

Sources and Financing

Group financing sources include deposits, obligatory notes and debentures of various types, as well as shareholders' 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.

Total deposits from the public for the Group as of June 30, 2015 amounted to NIS 153.7 billion, compared to NIS 152.4 billion at end of 2014. Deposits from the public in the CPI-linked segment as of June 30, 2015 decreased by 1.9% over the end of 2014; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 4.3%; and deposits in the NIS-denominated, non-CPI-linked segment increased by 0.2%. For details, see chapter "Development of balance sheet items" above.

As of June 30, 2015, the balance of the three largest depositor groups at the Bank Group amounted to NIS 12.2 billion.

Obligatory notes and debentures

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, Tefahot Issue Company issued subordinated notes to the public under published prospectuses.

As of the balance sheet date, all obligatory notes (Series 27-42), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 19,184 million in total par value (as of December 31, 2014 - NIS 15,581 million), of which NIS 2,131 million in subordinated notes (qualified for inclusion in Tier II capital for maintaining minimum capital ratio, subject to transition provisions).

On January 29, 2015, Mizrahi 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, Mizrahi Tefahot Issuance issued 3 debentures series (Series 40, 41 and 42), with total par value of NIS 1,804 million, for consideration of NIS 1,804 million.

On July 21, 2015, after the balance sheet date, Mizrahi Tefahot Issuance contracted with qualified investors a private placement of NIS 820 million par value debentures (Series 37) of Mizrahi Tefahot Issuance, for consideration of NIS 845 million.

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

Complex capital instruments

All of the Bank's complex capital instruments (Series A) issued and listed for trading are considered as upper Tier II capital for maintaining minimum capital ratio amounted to NIS 1,702 million par value as of June 30, 2015, issued for consideration amounting to NIS 1,614 million.

The revalued balance of the complex capital instruments as of June 30, 2015 was NIS 2.0 billion, similar to the end of 2014.

Rating of Bank obligations

On December 25, 2014, Standard & Poor's Maalot (hereinafter: "Maalot") raised the Bank's issuer rating to ilAAA (from ilAA+, which had been in effect since the Bank was first rated, in 2003) with a "stable" rating outlook.

The rating of subordinated notes issued by Tefahot Issuance was raised accordingly, reflecting one rank below the issuer rating, i.e. rated ilAA+.

The complex capital instruments, which constitute upper Tier II capital, are rated ilA+.

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.

Risk Management

Basel: Pillar 3 - Market Discipline

Below is qualitative information and quantitative data related to all risk factors to which the Bank is exposed, which are managed in line with the policies set by the Board of Directors. The information has been compiled in accordance with disclosure requirements of Basel recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.

As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2014.

Below are references to information required pursuant to reporting directives of the Bank of Israel, included below and elsewhere in these financial statements:

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements / Bank website[1]
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Details of capital components	Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks
	Quantitative disclosure	Bank website [1]
	Qualitative disclosure	Bank website [1]
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks
Credit risk	Quantitative disclosure	Risk Management chapter
	Credit risk exposure by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit risk exposure by contractual term to maturity	Risk Management chapter
	Credit risk exposure by major geographic regions	Management Discussion, Addendum D - Exposure to Foreign Countries
	Information about problematic debt	Note 3 - Credit risk, loans to the public and provision for credit losses
	Provision for credit losses by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit losses with respect to housing loans	Risk Management chapter
Credit risk mitigation	Quantitative disclosure	Risk Management chapter
Counter-party credit risk	Quantitative disclosure	Risk Management chapter
Securitization	Quantitative disclosure	Risk Management chapter
Share positions in bank portfolio	Quantitative disclosure	Risk Management chapter
Leverage ratio	Qualitative and quantitative disclosure	Risk Management chapter
Market risk, liquidity risk, interest risk in bank portfolio	Qualitative and quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Legal risk	Qualitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

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

Application scope

Provisions of Proper Banking Conduct Directives nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2014. To the best of the knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

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, operating 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 limitations 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 is an appendix to the master policy document specified by the Board of Directors for risk management and control) 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.

For further details of the Bank's capital adequacy ratio, see reference in chapter "Legislation and Supervision of Bank Group Operations".

For details of the risk adjusted capital ratio, see Note 5 to the financial statements.

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

Exposure group	As of June 30, 2015 Weighted risk asset balances	Capital requirement[1]	As of June 30, 2014 Weighted risk asset balances	Capital requirement[2]	As of December 31, 2014 Weighted risk asset balances	Capital requirement[2]
Sovereign debt	399	50	492	62	806	101
Public sector entity debt	359	45	427	53	407	51
Banking corporation debt	1,107	140	948	119	1,239	155
Corporate debt	39,994	5,039	40,388	5,049	41,022	5,128
Debt secured by commercial real estate	2,256	284	2,235	279	2,256	282
Retail exposure to individuals	11,435	1,441	10,821	1,353	11,136	1,392
Loans to small businesses	4,849	611	3,990	499	4,444	556
Residential mortgages	51,754	6,521	47,447	5,931	49,738	6,217
Other assets	4,394	554	4,140	518	4,225	528
Total	116,547	14,685	110,888	13,863	115,273	14,410

(1) The capital requirement was calculated at 12.6% of risk asset balances.
(2) The capital requirement was calculated at 12.5% of risk asset balances.

Risk assets and capital requirements with respect to market risk, CVA risk[1] and operating risk are as follows (NIS in millions):

Exposure group	As of June 30, 2015 Weighted risk asset balances	Capital requirement[1]	As of June 30, 2014 Weighted risk asset balances	Capital requirement[2]	As of December 31, 2014 Weighted risk asset balances	Capital requirement[2]
Market risk	1,123	142	919	115	1,020	128
CVA risk with respect to derivatives[3]	708	89	826	103	886	111
Operating risk	7,443	938	7,095	887	7,383	923
Total	9,274	1,169	8,840	1,105	9,289	1,162
Total risk assets	125,821	15,854	119,728	14,968	124,562	15,572

(1) The capital requirement was calculated at 12.6% of risk asset balances.
(2) The capital requirement was calculated at 12.5% of risk asset balances.
(3) Credit Value Adjustments - mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

Below is capital for calculation of capital ratio after supervisory adjustments and deductions:

	As of June 30, 2015	As of June 30, 2014	As of December 31, 2014
Tier 1 capital	11,703	10,700(1)	11,273(1)
Tier 2 capital	4,473	4,855	4,883
Total capital	16,176	15,555	16,156

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

	Ratio of capital to risk elements		
	As of June 30, 2015	As of June 30, 2014	As of December 31, 2014
Ratio of Tier I capital to risk elements(1)	9.30	8.94	9.05
Ratio of total capital to risk elements(1)	12.86	12.99	12.97
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.10	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks(2)	12.60	12.50	12.50

(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. Tier I capital ratio as stated on the financial statements: As of June 30, 2014 - 9.00; as of December 31, 2014 - 9.12.

(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 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 current reporting date, are 9.8% and 13.3%, respectively.

Risk exposure and relevant assessment

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market, interest, liquidity, credit and operating risk. The risk management policies, in various aspects, are designed to support achievement of the Group's business goals while limiting exposure, by setting a qualitative or quantitative risk appetite for such risk factors. The Bank has a well-ordered process in place for mapping and identification of risk associated with Bank operations, as well as policy documents which govern Bank handling of various risk factors, 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 risk management and control, including the reporting chain required under normal conditions and in an emergency. Over the past year, the Bank continued to improve its handling of the risk appetite specified by the Board of Directors and in particular, is updating a dedicated policy document which governs the qualitative and quantitative framework for handling risk appetite including reporting and monitoring. This is after the Bank Board of Directors has specified the risk appetite for the various risk factors to which the Bank is exposed, i.e. the maximum allowed exposures, as part of business operations.

Risk is regularly managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 (risk 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 Conduct of Banking Business Regulations 310, 333, 311, 350 and 314 with regard to risk management, as well as an update to Regulation 339. The Bank has completed preparations for application of these directives effective as from January 2014 (except for Directives 350 and 333, which will be effective as from January 2013 and July 2014, respectively), which stipulate new standards for risk management and control at the Bank. The Bank has also completed its preparations for applying the new Bank of Israel liquidity directive, by the schedule stipulated in Proper Banking Conduct Directive 342 and 221 and is applying it as from April 1, 2015. For more information see chapter Liquidity Risk below and Note 5 to the financial statements. Bank management believes that risk control and management must be an integrative process. The management of risk 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. As part of this aspect, Bank units have upgraded the Bank's quarterly risk document (mini ICAAR) in conformity with Directive 310, to provide an extensive overview of the various risk factors faced by the Bank, highlighting on a quarterly level the status and development of the risk profile in view of the risk appetite specified in the policy document. Therefore, this document complements and reinforces the view of the risk profile provided in the Bank's annual ICAAR document. The Bank also runs a variety of stress tests (extreme) which are regularly updated, that challenge its current risk profile under stress conditions, given changes to risk factors relevant for Bank operations, emphasizing stress tests that review the risk profile under material changes to macro-economic conditions. In conjunction with this activity, the Bank provided, in the first quarter of 2015, the results of the uniform scenario specified by the Bank of Israel for the banking system in Israel. Given the high importance of stress testing, according to the Bank, as part of management and control of its risk and capital, the Board of Directors and management have issued a policy document dedicated to this issue.

Credit risk

Credit risk is the risk of the Bank incurring a loss due to the counter party to a transaction potentially failing to meet their commitments. This risk may arise from multiple factors which may impact the entire loan portfolio, a specific sector or an individual client. These risk factors include, inter alia, macro-economic changes, business risk arising from client operations, credit concentration risk etc.

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. The limitations specified under risk appetite are monitored 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 document, which is brought for approval by the Bank's Board of Directors.

The Bank has approved a 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. 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.

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate and the policy is revised as needed.

Below is the composition of credit exposure by exposure group and by balance sheet item, before provision for credit losses (NIS in millions)[(1)]:

As of June 30, 2015											
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail For individuals	Small business	Housing loans	Others	Gross credit exposure[(2)]	Average gross credit exposure
Loans[(3)]	22,413	286	1,614	27,373	2,322	15,334	7,566	100,586	-	177,494	175,595
Securities[(4)]	14,585	-	312	62	-	-	-	-	-	14,959	13,708
Derivatives[(5)]	46	485	1,190	2,266	-	30	7	-	-	4,024	4,122
Other off-balance-sheet exposures	49	280	40	41,310	507	10,874	2,863	7,810	-	63,732	63,900
Other assets[(6)]	-	-	-	-	-	-	-	-	4,335	4,335	4,398
Total	37,092	1,051	3,156	71,011	2,829	26,238	10,436	108,396	4,335	264,544	261,723

As of December 31, 2014											
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail For individuals	Small business	Housing loans	Others	Gross credit exposure[(2)]	Average gross credit exposure
Loans[(3)]	22,946	546	2,576	27,665	2,363	14,981	7,112	96,051	-	174,240	171,153
Securities[(4)]	12,710	1	342	67	-	-	-	-	-	13,120	9,180
Derivatives[(5)]	35	505	951	2,379	-	28	8	-	-	3,906	3,384
Other off-balance-sheet exposures	51	176	35	42,773	484	10,610	2,724	6,273	-	63,126	58,266
Other assets[(6)]	-	-	-	-	-	-	-	-	4,254	4,254	4,283
Total	35,742	1,228	3,904	72,884	2,847	25,619	9,844	102,324	4,254	258,646	246,292

(1) After deduction of accounting write-offs and before provision for credit losses on individual and group basis.
(2) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, excluding impact of credit risk mitigation, conversion factors and risk weighting factors, as defined under Basel rules.
(3) Includes loans to the public, loans to governments, deposits with banks and borrowed securities.
(4) Excludes balances deducted from the capital basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivative instruments (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the capital basis, including cash, investment in shares, fixed assets and investment in investees.

Composition of credit exposure before provision for credit losses, by contractual term to maturity, by major gross credit exposure type, is as follows:

Gross credit (NIS in millions)(1):

					As of June 30, 2015
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total(2)
Loans(3)	50,493	26,862	100,007	132	177,494
Securities(4)	280	10,608	4,071	-	14,959
Derivatives(5)	2,688	1,143	193	-	4,024
Other off-balance-sheet exposures	55,140	6,792	1,800	-	63,732
Other assets(6)	2,621	-	129	1,585	4,335
Total	111,222	45,405	106,200	1,717	264,544

					As of December 31, 2014
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total(2)
Loans(3)	52,472	25,779	95,865	124	174,240
Securities(4)	908	7,969	4,243	-	13,120
Derivatives(5)	2,643	916	347	-	3,906
Other off-balance-sheet exposures	52,790	8,952	1,384	-	63,126
Other assets(6)	2,503	-	129	1,622	4,254
Total	111,316	43,616	101,968	1,746	258,646

(1) After deduction of accounting write-offs and before provision for credit losses on individual and group basis.
(2) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, excluding impact of credit risk mitigation, conversion factors and risk weighting factors, as defined under Basel rules.
(3) Includes loans to the public, loans to governments, deposits with banks and borrowed securities.
(4) Excludes balances deducted from the capital basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivative instruments (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the capital basis, including cash, investment in shares, fixed assets and investment in investees.

Credit risk - standard approach

Below is composition of credit exposure amounts[(1)] by exposure group and weighting, before and after credit risk mitigation[(2)] (NIS in millions):

Before credit risk mitigation

	As of June 30, 2015											
	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deducted from capital	Total
Rated exposures:												
Sovereign debt	34,933	1,831	-	41	-	223	64	-	-	37,092	-	37,092
Public sector entity debt	-	-	-	1,051	-	-	-	-	-	1,051	-	1,051
Banking corporation debt	-	1,917	-	1,091	-	79	-	-	-	3,087	-	3,087
Corporate debt	-	19	-	151	-	-	-	-	-	170	-	170
Total	34,933	3,767	-	2,334	-	302	64	-	-	41,400	-	41,400
Non-rated exposures:												
Banking corporation debt	-	55	-	12	-	-	-	-	-	67	-	67
Corporate debt	-	-	-	-	-	70,672	101	-	-	70,773	-	70,773
Debt secured by commercial real estate	-	-	-	-	-	2,825	2	-	-	2,827	-	2,827
Retail exposure to individuals	-	-	-	-	26,108	37	84	-	-	26,229	-	26,229
Loans to small businesses	-	-	-	-	10,319	21	64	-	-	10,404	-	10,404
Residential mortgages	-	-	53,979	17,318	35,535	1,297	267	-	-	108,396	-	108,396
Other assets	1,372	-	-	-	-	1,993	50	917	4	4,336	87	4,423
Total	1,372	55	53,979	17,330	71,962	76,845	568	917	4	223,032	87	223,119
Total	36,305	3,822	53,979	19,664	71,962	77,147	632	917	4	264,432	87	264,519

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, excluding impact of credit conversion factors and risk weighting factors, as defined under Basel rules.

(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

												As of June 30, 2015
	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deduc-ted from capital	Total
Rated exposures:												
Sovereign debt	35,580	1,838	-	41	-	21	-	-	-	37,480	-	37,480
Public sector entity debt	257	-	-	907	-	-	-	-	-	1,164	-	1,164
Banking corporation debt	-	1,909	-	1,091	-	79	-	-	-	3,079	-	3,079
Corporate debt	-	19	-	151	-	-	-	-	-	170	-	170
Total	35,837	3,766	-	2,190	-	100	-	-	-	41,893	-	41,893
Non-rated exposures:												
Banking corporation debt	-	212	-	129	-	-	-	-	-	341	-	341
Corporate debt	-	-	-	-	-	59,830	92	-	-	59,922	-	59,922
Debt secured by commercial real estate	-	-	-	-	-	2,496	2	-	-	2,498	-	2,498
Retail exposure to individuals	-	-	-	-	24,010	11	84	-	-	24,105	-	24,105
Loans to small businesses	-	-	-	-	8,182	17	50	-	-	8,249	-	8,249
Residential mortgages	-	-	53,931	17,293	35,406	1,297	267	-	-	108,194	-	108,194
Other assets	1,372	-	-	-	-	1,993	50	917	4	4,336	87	4,423
Total	1,372	212	53,931	17,422	67,598	65,644	545	917	4	207,645	87	207,732
Total exposure	37,209	3,978	53,931	19,612	67,598	65,744	545	917	4	249,538	87	249,625

Before credit risk mitigation

												As of December 31, 2014
	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deduc-ted from capital	Total
Rated exposures:												
Sovereign debt	31,662	3,722	-	43	-	315	-	-	-	35,742	-	35,742
Public sector entity debt	-	-	-	1,226	-	-	-	-	-	1,226	-	1,226
Banking corporation debt	-	2,718	-	1,095	-	54	-	-	-	3,867	-	3,867
Corporate debt	-	78	-	128	-	-	-	-	-	206	-	206
Total	31,662	6,518	-	2,492	-	369	-	-	-	41,041	-	41,041
Non-rated exposures:												
Public sector entity debt	-	-	-	1	-	-	-	-	-	1	-	1
Banking corporation debt	-	25	-	12	-	-	-	-	-	37	-	37
Corporate debt	-	-	-	-	-	72,502	149	-	-	72,651	-	72,651
Debt secured by commercial real estate	-	-	-	-	-	2,724	64	-	-	2,788	-	2,788
Retail exposure to individuals	-	-	-	-	25,499	42	63	-	-	25,604	-	25,604
Loans to small businesses	-	-	-	-	9,731	24	46	-	-	9,801	-	9,801
Residential mortgages	-	-	54,546	13,365	29,011	5,161	241	-	-	102,324	-	102,324
Other assets	1,324	-	-	-	-	2,051	54	820	5	4,254	87	4,341
Total	1,324	25	54,546	13,378	64,241	82,504	617	820	5	217,460	87	217,547
Total	32,986	6,543	54,546	15,870	64,241	82,873	617	820	5	258,501	87	258,588

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, excluding impact of credit conversion factors and risk weighting factors, as defined under Basel rules.

(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deducted from capital	Total
												As of December 31, 2014
Rated exposures:												
Sovereign debt	32,502	3,726	-	43	-	51	-	-	-	36,322	-	36,322
Public sector entity debt	259	-	-	901	-	-	-	-	-	1,160	-	1,160
Banking corporation debt	-	2,710	-	1,095	-	54	-	-	-	3,859	-	3,859
Corporate debt	-	78	-	128	-	-	-	-	-	206	-	206
Total	32,761	6,514	-	2,167	-	105	-	-	-	41,547	-	41,547
Non-rated exposures:												
Public sector entity debt	-	-	-	1	-	-	-	-	-	1	-	1
Banking corporation debt	-	189	-	132	-	-	-	-	-	321	-	321
Corporate debt	-	-	-	-	-	61,091	137	-	-	61,228	-	61,228
Debt secured by commercial real estate	-	-	-	-	-	2,410	63	-	-	2,473	-	2,473
Retail exposure to individuals	-	-	-	-	23,399	18	63	-	-	23,480	-	23,480
Loans to small businesses	-	-	-	-	7,554	17	39	-	-	7,610	-	7,610
Residential mortgages	-	-	54,546	13,364	28,923	5,159	240	-	-	102,232	-	102,232
Other assets	1,324	-	-	-	-	2,051	54	820	5	4,254	87	4,341
Total	1,324	189	54,546	13,497	59,876	70,746	596	820	5	201,599	87	201,686
Total exposure	34,085	6,703	54,546	15,664	59,876	70,851	596	820	5	243,146	87	243,233

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 a consolidated basis, after allowed deductions pursuant to Proper Banking Conduct Directive 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).

As of June 30, 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 business:

- Business 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.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

- Credit for financing the acquisition of means of control, which typically has a high LTV ratio relative to the value of shares, and relying on the acquired shares as a source for credit repayment, as well as other credit extended to the borrower after the financing for acquisition of means of control, with repayment primarily based on the cash flows derived from the means of control whose acquisition was financed previously. The Bank reviews these transactions with due diligence, based inter alia on internal valuations as well as on external valuators. The terms specified for the transaction include sensitivity tests and financial covenants, which if met, require the borrower to provide additional collateral. Such credit is reported periodically.

- 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 internal rating 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.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for acquisition of means of control (NIS in millions)

	On-balance sheet credit risk as of		
Economic sector of acquired company	June 30, 2015	June 30, 2014	December 31, 2014
Construction and real estate	187	179	228
Commerce	80	-	-
Total	267	179	228

Credit to leveraged companies (NIS in millions):

	On-balance sheet credit risk as of		
Economic sector of borrower	June 30, 2015	June 30, 2014	December 31, 2014
Construction and real estate	20	364	270
Commerce	253	-	181
Industry	-	193	-
Financial services	39	168	41
Information and communications	68	-	-
Total	380	725	492

Below is information on the Bank's exposure to foreign financial institutions [(1)(2)] (NIS in millions):

	On-balance sheet credit risk[(3)]		Off balance sheet credit risk[(4)]	Current credit exposure	
External credit rating	Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements
	As of June 30, 2015				
AAA to AA-	532	470	-	532	470
A+ to A-	1,622	1,158	2	1,624	1,160
BBB+ to BBB-	-	-	-	-	-
+BB to B-	-	-	13	13	13
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total credit exposure to foreign financial institutions	2,154	1,628	15	2,169	1,643
	As of June 30, 2014				
AAA to AA-	493	402	-	493	402
A+ to A-	1,362	903	2	1,364	905
BBB+ to BBB-	2	2	-	2	2
BB+ to B-	-	-	11	11	11
Lower than B-	-	-	-	-	-
Unrated	4	4	-	4	4
Total credit exposure to foreign financial institutions	1,861	1,311	13	1,874	1,324
	As of December 31, 2014				
AAA to AA-	572	410	-	572	410
A+ to A-	2,302	1,219	2	2,304	1,221
BBB+ to BBB-	-	-	-	-	-
+BB to B-	-	-	11	11	11
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total credit exposure to foreign financial institutions	2,874	1,629	13	2,887	1,642

As of June 30, 2015, June 30, 2014 and December 31, 2014 there was no troubled 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 mostly 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 exposures exclude 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 8 to the financial statements.

Some of the exposures listed in the above table are included under the Financial Services sector in Management Discussion - Addendum C - Credit Risk by Economic Sector, enclosed with these financial statements. The Management Discussion also includes exposure with respect to deposits with banks, loans to the public, public investment in debentures and other assets with respect to derivative instruments, in conformity with Proper Conduct of Banking Business Directive 313.

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.

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.

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Moody's. The main rating used by the Bank for independent analysis is the rating provided by Fitch.

Environmental risk – 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 risk factors 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 risk factors 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. The environmental risk policies are approved annually by the Bank’s Board of Directors as part of the policy documents.

Credit losses with respect to housing loans

In conjunction with credit risk 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, 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 Risk Control Division and other Bank entities are responsible. This activity includes portfolio analysis for clients in good standing and clients in default, by inherent risk factors thereof (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress tests, from economic and accounting aspects, to review the impact of macro-economic factors on portfolio risk - primarily the impact of unemployment, housing prices 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.

The Bank is currently completing the development and validation of advanced models for the remainder of the retail population. When this stage is completed, as noted with regard to the mortgage population, this mechanism would be added to the monitoring, management and measurement mechanism for the retail population, in conformity with a model usability plan prepared by the Bank.

The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2014.

Risk appetite in mortgage segment

As part of its credit policies and 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 risk profile of the mortgage portfolio and 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. Over the past 3 years, the risk appetite 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, credit insurance and cross restrictions which include combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio, in view of the specified risk appetite.

As of the end of 2014, the monitoring tools consist of over 40 risk benchmarks specified by the Board of Directors, which are presented in the Bank's quarterly risk document with a review of the resulting risk profile, which also reviews the evolution of these risk appetite benchmarks. This monitoring indicates that the risk profile of the Bank's mortgage portfolio has been trending downwards in recent quarters, for most of the risk appetite benchmarks specified for various risk factors, including LTV and loan repayment ratio. 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 over the past year and that the potential impact of a severe stress event in the market is low relative to Bank capital.

The Bank monitors the current portfolio, including performance analysis by various criteria and by risk focal points. In addition, as noted above, the Bank regularly conducts stress testing of its mortgage portfolio - challenging multiple risk factors in this portfolio, as presented below. 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). The various stress tests conducted by the Bank challenge, inter alia, 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. They also challenge the risk profile of each Bank client, by dynamically updating several risk factors, such as repayment ratio and LTV, based on the quarterly macro-economic conditions specified in the scenario. 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 Risk Management Committee of the Board of Directors and to the Board of Directors plenum, as part of the quarterly risk document. The Risk Control Division is also responsible for review of operating risk associated with mortgage operations, in conjunction with its overall handling of operating risk and in conformity with provisions of Directive 350 by the Bank of Israel.

On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329 concerning restrictions on extending housing loans, as well as a Q&A file on this issue, which includes an increase in the target ratio of Tier I capital to risk element by 1% of the housing loan portfolio balance. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

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 additional 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 June 30, 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 June 30, 2015 was 55.3%, compared to 55.8% on December 31, 2014 and to 56.3% on December 31, 2013. Out of the Bank's total housing loan portfolio, amounting to NIS 101.6 million, some 93% 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 0.3 billion, or only 0.3% 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 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 a high LTV ratio are usually secured by credit insurance, which significantly reduces risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 3.3 billion, or 44.0%, is insured by credit insurance.

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 1.2% for loans granted 1-2 years ago, 0.6% for loans granted 3-12 months ago and 0.6% for loans granted in the second 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. 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 28.8%. Some 76% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.8%); Some 18% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.5%). Some 5% of the mortgage portfolio were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.9%), and only 1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.3%).

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 more details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Loans bearing variable interest

The Bank allows its clients to obtain housing loans which include a portion bearing NIS-denominated interest based on the prime lending rate.

Over the past decade, the prime lending rate decreased from 10% in 2002-2003, through 5%-6% in 2004-2008 to 1.60%-5% from 2009 to date. Accordingly, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted since 2009, assuming that the prime lending rate may rise, reflecting a positive real interest in the economy.

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 interest linked to the prime lending rate 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.

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 9.3 billion, or only 9.2% 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".

The directive by the Supervisor of Banks dated May 3, 2011, which restricts the portion of loans extended bearing interest which may vary within a 5-year term to 33% of total loan amount, has also contributed to further reduction in variable interest loans extended, and to mitigation of risk in this area.

The Supervisor's letter dated August 29, 2013 stipulates that, in addition to the directive dated May 3, 2011, 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 July 15, 2014. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 4.1 billion as of June 30, 2015, or only 4.0% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio[1] (NIS in millions):

		Loan age[2] (time elapsed since loan grant)						
LTV ratio	Repayment as percentage of regular income	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%	2,740	7,025	8,457	15,152	9,671	3,504	46,549
	35%-50%	334	1,157	1,797	4,796	2,242	701	11,027
	50%-80%	-	15	181	1,690	880	262	3,028
	Over 80%	-	-	16	153	149	53	371
60%-75%	Up to 35%	1,510	3,670	5,275	9,942	4,825	908	26,130
	35%-50%	182	462	788	2,744	1,215	246	5,637
	50%-80%	-	2	40	746	405	96	1,289
	Over 80%	-	-	-	36	63	15	114
Over 75%	Up to 35%	29	69	170	2,073	1,839	1,416	5,596
	35%-50%	2	6	32	449	443	502	1,434
	50%-80%	-	-	4	71	153	169	397
	Over 80%	-	-	-	8	25	37	70
Total		4,797	12,406	16,760	37,860	21,910	7,909	101,642
Of which:								
Loans granted with original amount over NIS 2 million		184	432	710	1,947	793	36	4,102
Percentage of total housing loans		3.8%	3.5%	4.2%	5.1%	3.6%	0.5%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,121	3,187	4,998	10,898	10,547	1,067	31,818
CPI-linked[3]		12	52	186	2,431	4,104	1,618	8,403
In foreign currency[3]		53	239	607	2,204	773	370	4,246
Total		1,186	3,478	5,791	15,533	15,424	3,055	44,467
Non-linked loans at prime lending rate, as percentage of total housing loans		23.4%	25.7%	29.8%	28.8%	48.1%	13.5%	31.3%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.3%	0.4%	1.1%	6.4%	18.7%	20.5%	8.3%
Loans with LTV over 75% as percentage of total housing loans		0.6%	0.6%	1.2%	6.9%	11.2%	26.9%	7.4%

(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 June 30, 2015 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer						
	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	Balance with respect to re-financed loans in arrears[4]	Total
Amount in arrears	5	10	12	12	209	243	73	321
Of which: Balance of provision for interest[1]	-	-	-	1	99	100	6	106
Recorded debt balance	277	361	181	69	164	775	198	1,250
Balance of provision for credit losses [2]	-	-	25	33	140	198	82	280
Debt balance, net	277	361	156	36	24	577	116	970

(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.

Credit risk mitigation

Below is the composition of net credit exposure by risk mitigation type (NIS in millions):

	As of June 30, 2015				
		Exposure covered by guarantees[2]		Exposure covered	
	Gross credit exposure[1]	Amounts deducted	Amounts added	by qualified financial collateral	Net credit exposure
Sovereign debt	37,092	(257)	653	(9)	37,479
Public sector entity debt	1,051	-	256	(143)	1,164
Banking corporation debt	3,154	(8)	274	-	3,420
Corporate debt	70,943	(619)	-	(10,232)	60,092
Debt secured by commercial real estate	2,827	(6)	-	(323)	2,498
Retail exposure to individuals	26,229	(1)	-	(2,122)	24,106
Loans to small businesses	10,404	(291)	-	(1,864)	8,249
Residential mortgages	108,396	-	-	(202)	108,194
Other assets	4,336	-	-	-	4,336
Total	264,432	(1,183)	1,183	(14,895)	249,538

(1) Balances of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel rules.
(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Below is the composition of net credit exposure by risk mitigation type (NIS in millions) - continued:

					As of December 31, 2014
		Exposure covered by guarantees[2]		Exposure covered	
	Gross credit exposure[1]	Amounts deducted	Amounts added	by qualified financial collateral	Net credit exposure
Sovereign debt	35,742	(259)	845	(6)	36,322
Public sector entity debt	1,227	(251)	259	(74)	1,161
Banking corporation debt	3,904	(8)	284	-	4,180
Corporate debt	72,857	(516)	-	(10,907)	61,434
Debt secured by commercial real estate	2,788	(4)	-	(311)	2,473
Retail exposure to individuals	25,604	(3)	-	(2,121)	23,480
Loans to small businesses	9,801	(347)	-	(1,844)	7,610
Residential mortgages	102,324	-	-	(92)	102,232
Other assets	4,254	-	-	-	4,254
Total	258,501	(1,388)	1,388	(15,355)	243,146

(1) Balances of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel rules.

(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Counter-party credit risk

Counter-party credit risk (CCR) is the risk that the counter-party to a transaction will be in default before final clearance of the transaction cash flows. Economic loss would be incurred only when the transaction with the counter-party would have a positive economic value upon such default. The market value of the transaction, which may be positive or negative for either party, actually depends on volatility of market factors. Should the counter-party be in default, and the transaction have a positive fair value, this may cause the Bank to incur a loss, liquidity issues and difficulties in carrying out further transactions. Risk factors which impact counter-party credit risk are: Credit risk, market risk, interest risk and liquidity risk.

The trading in derivative instruments is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these derivative instruments, both for its clients and for its own account, as part of the management of basis and interest exposure in the various linkage segments. The Bank also operates in the credit derivatives (CDS) sector in its trading portfolio. These investments are individually reviewed by the Risk Management Committee, headed by the Manager, Financial Division, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivative instruments (NIS in millions):

	As of June 30, 2015					
	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivative instruments after impact of add-on factor	146	1,184	561	1	46	1,938
Positive fair value, gross, of derivatives[1]	1,654	2,093	778	-	-	4,525
Effect of offset agreements	(1,269)	(1,065)	(105)	-	-	(2,439)
Total exposure with respect to derivative instruments	531	2,212	1,234	1	46	4,024
Collateral with respect to derivative instruments (before safety factors)	(92)	(797)	(1,209)	(1)	(22)	(2,121)
Impact of safety factors on collateral	40	248	557	-	2	847
Total current credit exposure after credit risk mitigation	479	1,663	582	-	26	2,750

	As of December 31, 2014					
	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivative instruments after impact of add-on factor	147	1,222	321	1	-	1,691
Positive fair value, gross, of derivatives[1]	1,726	3,041	454	-	-	5,221
Effect of offset agreements	(1,356)	(1,583)	(67)	-	-	(3,006)
Total exposure with respect to derivative instruments	517	2,680	708	1	-	3,906
Collateral with respect to derivative instruments (before safety factors)	(79)	(751)	(643)	(1)	-	(1,474)
Impact of safety factors on collateral	8	243	294	-	-	545
Total current credit exposure after credit risk mitigation	446	2,172	359	-	-	2,977

(1) Includes exposure arising from counter-party credit risk with respect to client activity on the stock exchange, calculated based on stock exchange rules.

(2) The Bank's credit derivatives operations are not classified as brokerage operations. For information about transactions to buy and sell credit protection, see Note 8.A to the financial statements.

Securitization

The Bank does not operate in the field of asset securitization. It is Bank policy to avoid, in principle, investment in complex securitization instruments.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in tradable and public shares amounting to NIS 2 million, and investment in non-public shares amounting to NIS 140 million.

	As of June 30, 2015	
	Fair value	Capital requirement(1)
Shares	64	8
Venture capital / private equity funds	78	10
Total investment in shares in bank portfolio	142	18

	As of December 31, 2014	
	Fair value	Capital requirement(2)
Shares	65	8
Venture capital / private equity funds	91	11
Total investment in shares in bank portfolio	156	19

(1) The capital requirement was calculated at 12.6%.
(2) The capital requirement was calculated at 12.5%.

Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business 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 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.

Below is information about the Bank's leverage ratio:

Comparison of assets on balance sheet and exposure measurement for leverage ratio (NIS in millions)	
As of June 30, 2015	
Total assets on consolidated financial statements	201,764
Adjustments with respect to investments in banking, finance, insurance or commercial entities consolidated for accounting purposes but not within the scope of consolidation for supervisory purposes	-
Adjustments with respect to trust assets recognized on the balance sheet in conformity with Public Reporting provisions but not included in the exposure measurement of leverage ratio	-
Adjustments with respect to financial derivative instruments	5
Adjustments with respect to securities financing transactions	-
Adjustments with respect to off-balance sheet items[(1)]	20,417
Other adjustments	1,161
Exposure for leverage ratio	223,347

(1) Conversion of off-balance sheet exposures to equivalent credit amounts, in conformity with Basel rules for capital adequacy measurement.

Composition of exposures and leverage ratio (NIS in millions)	
As of June 30, 2015	
Balance sheet exposure	
Assets on balance sheet[(1)]	198,175
Amounts with respect to assets deducted to determine Tier I capital	(87)
Total balance sheet exposure[(1)]	198,088
Exposure with respect to derivatives	
Cost of replacement with respect to all derivative transactions	2,086
Amounts added with respect to future potential exposure with respect to all derivative transactions	1,938
Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives	-
Deduction of debtor assets with respect to variable cash collateral provided in conjunction with derivative transactions	-
Effective adjusted nominal amount of credit derivatives written	459
Adjusted effective nominal offsets and deduction of additions with respect to credit derivatives written	-
Total exposure with respect to derivatives	4,483
Exposure with respect to securities financing transactions	
Gross assets with respect to securities financing transactions (without offsets), after adjustment for transactions accounted for as an accounting sale	359
Offset amounts of cash payable and cash receivable from gross assets with respect to securities financing transactions	-
Credit risk exposure for central counter-party with respect to securities financing assets	-
Exposure with respect to transactions as agent	-
Total exposure with respect to securities financing transactions	359
Other off-balance-sheet exposures	
Off-balance sheet exposure at gross nominal value	63,732
Adjustments with respect to conversion to credit equivalent amounts	(43,315)
Off-balance sheet items	20,417
Capital and total exposure	
Tier 1 capital	11,703
Total exposure	223,347
Leverage ratio	
Leverage ratio in conformity with Proper Banking Conduct Directive 218	5.24%

(1) Excluding derivatives and securities financing transactions, including collateral.

For details of Bank Yahav's leverage ratio, see Notes 2 and 5 to the financial statements.

Market risk

The market risk to which the Bank is exposed by various financial instruments is due to their sensitivity to unexpected changes in risk factors, including: interest rate, inflation and exchange rates - so that changes in market conditions may result in changes in the fair value of various financial instruments. Market risk management is intended to maximize Bank profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

Bank operations involve two major market risk factors:

- Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments. The Bank manages interest risk in conformity with the Bank of Israel directive concerning management of interest risk (Directive 333), a specific directive with regard to interest risk management, emphasizing interest risk in the Bank portfolio. Interest risk management is covered by a separate policy document on interest risk management, which includes, *inter alia*, definitions of risk focal points, how risk is managed including structure and authority of different organs, risk measurement and restrictions set by the Board of Directors and management.
- Linkage-basis risk - the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Interest risk in Bank portfolio

Interest risk in the Bank portfolio is monitored on a regular basis, as required by the Bank of Israel in Proper Banking Conduct Directive 333, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms, the Bank's primary model for risk assessment, which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve under normal and stress situations, including corresponding 2% shifts upwards/downwards of the interest rate curve.

In addition, the Bank has multiple scenarios designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. In this context, the Bank applied innovative methods to review interest risk upon occurrence of stress events, including under stress scenarios of an economic outline.

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):

	June 30, 2015					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(1,510)	323	107	(28)	(7)	(1,115)
2% decrease	1,774	(471)	(94)	30	10	1,249

	June 30, 2014					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(539)	(22)	103	(9)	(9)	(476)
2% decrease	533	(124)	(2)	9	5	421

	December 31, 2014					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(1,191)	58	236	(11)	(2)	(910)
2% decrease	1,004	(202)	(38)	3	3	770

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the pre-payment rate and manner are taken into account. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.

The VaR model (Value at Risk)

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress-test values on a daily basis. In order to improve the responsiveness of the VaR to the degree of volatility in financial markets, the Bank has developed a VaR calculation method which implements a combination of two major calculation methods: the analytical method and the historical simulation method. This method allows the Bank to handle situations where market volatility increases. This method has been developed by the Bank in the past, together with overseas experts, and is subject to continuous back testing. The following data is presented only based on calculations using the historical method.

VaR calculations with respect to the option portfolio are conducted hourly at the Bank, using the Monte Carlo simulation method and the historical method.

The internal estimate of VaR of the Bank Group, using the historical method, presents the risk of a loss during a month, with the probability of it occurrence not exceeding 1%. Below is the VaR for the Bank Group (NIS in millions):

	First half of 2015	First half of 2014	All of 2014
At end of period	338	235	286
Maximum value during period	379 (May)	235 (JUN)	288 (NOV)
Minimum value during period	303 (JAN)	162 (JAN)	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

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	415.8	207.9	(207.9)	(415.8)	60.7	(35.8)
Dollar	21.1	2.8	3.2	6.9	0.7	0.7
Pound Sterling	1.3	0.5	0.9	1.5	0.2	0.7
Yen	1.5	0.5	(0.8)	(0.5)	0.5	(0.8)
Euro	6.5	1.6	3.6	(0.3)	3.2	(0.2)
Swiss Franc	1.3	0.6	(0.2)	0.5	1.7	(0.3)

(1) Extreme scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

Interest risk

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
June 30, 2015						
Financial assets[1]	121,366	53,004	16,319	3,108	2,046	195,843
Amounts receivable with respect to financial derivative instruments[3]	83,885	3,082	69,172	15,041	7,325	178,505
Financial liabilities[1]	(108,792)	(40,237)	(28,522)	(6,096)	(2,995)	(186,642)
Amounts payable with respect to financial derivative instruments[3]	(91,836)	(11,911)	(57,025)	(12,063)	(6,540)	(179,375)
Total	4,623	3,938	(56)	(10)	(164)	8,331
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 %
June 30, 2015								
Change in interest rates:								
Concurrent immediate increase of 1%	3,885	4,181	(68)	(40)	(165)	7,793	(538)	(6.5)
Concurrent immediate increase of 0.1%	4,636	3,959	(58)	(13)	(164)	8,360	29	0.3
Concurrent immediate decrease of 1%	5,583	3,647	(35)	22	(162)	9,055	724	8.7
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 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 derivative instruments, 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 10 to the financial statements.

The Bank is required to allocate capital with respect to interest risk in the negotiable portfolio, for exchange rate risk for all banking activities and for option risk. The Bank uses the effective duration method in measuring interest risk, and the Delta Plus method in measuring option risk. This method quantifies the risk associated with operations of the option portfolio based on the discounting values. These reflect the sensitivity of the option portfolio to movements in the underlying asset and in standard deviation.

In accordance with Basel II rules, the Bank is also required to calculate specific risk in the trading 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. This requirement relates to instruments in the trading portfolio, and replaces the capital requirement with respect to credit risk associated with these instruments, had they been held in the Bank's portfolio.

Capital allocation for basis risk is at 8% of the net open position in each currency.

Below is the capital requirement due to market risk by risk element (NIS in millions):

	As of June 30, 2015			As of December 31, 2014		
	Capital requirements(1)			Capital requirements(1)		
Risk element(3)	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk(4)	-	122	122	-	80	80
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	20	20	-	48	48
Total market risk	-	142	142	-	128	128

(1) The capital requirement was calculated at 12.6%.

(2) The capital requirement was calculated at 12.5%.

(3) Risk associated with options activity is included under the different components, and was calculated using the Delta Plus approach, as defined in the Supervisor of Banks' directive.

(4) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

Liquidity risk result 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 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.

Regulatory liquidity model – liquidity coverage ratio

As from April 1, 2015, the Bank applies Proper Conduct of Banking Business regulation 221 "Regulatory liquidity coverage ratio", which became effective on said date. This regulation 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 1, 2015, 80% as from January 1, 2016 and 100% as from January 1, 2017. The ratio is managed and reported in total for all currencies combined and separately for foreign currency and the Bank holds liquid assets of the highest quality, in line with composition of liquidity needs by major currencies. This regulation is in addition to liquidity risk management using internal models, as stipulated by Proper Banking Conduct Directive no. 342, as described below.

The major factors affecting the liquidity coverage ratio results are composition of Bank sources and uses. High-Quality Liquid Assets ("HQLA") are Level 1 assets, which are typically highly negotiable and associated with low risk. These include cash, current accounts and deposits with central banks, debentures of sovereigns with a 0% risk weighting and debentures of the State of Israel. Cash outflows primarily consist of un-secured wholesale financing - deposits which corporations and financial entities deposited with the Bank. The ratio during the month is primarily cyclical and may be forecast based on internal estimates by the Bank.

The key factor which affects evolution of this ratio over time is growth in Bank business, both in raising and management of source composition (including issuance) and increase in uses. The Bank regularly strives to increase this ratio, in conformity with the outline described in Proper Banking Conduct Directive 221, to achieve a minimum ratio of 80% at the start of 2016 and a minimum ratio of 100% at the start of 2017, through dynamic management of source composition. The Bank’s Board of Directors and management have specified an additional safety margin over and above the required minimum ratio, so that the effective restrictions used for current management are higher than stipulated by the aforementioned directive.

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. Current management of source composition includes setting policy on source diversification and financing terms as well as setting specific targets for risk benchmarks.

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. Thus, the Bank has minimum liquidity exposure due to demand for collateral.

The average (on consolidated basis) liquidity coverage ratio for the second quarter of 2015 was 84% (the minimum ratio required by the Supervisor of Banks was 60%).

Internal liquidity model – minimum liquidity ratio

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Banking Conduct Directive 342 “Management of Liquidity Risk" 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.

There were no deviations from the Board of Directors’ limitations recorded in the first half of 2015.

Liquidity coverage ratio – additional disclosure

Liquidity risk management is governed by a policy 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 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 using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio - regulatory model and minimum liquidity ratio - internal model) and concentration. The liquidity risk management policy is brought for review and approval by the Board of Directors at least once per year.

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.

Regular and periodic management of liquidity risk is conducted on a Group-basis in conjunction with the general risk management framework at the Bank. This framework consists of the first circle - risk managers at the Financial Division; the second circle - risk controllers at the Risk Control Division; and the third circle - 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.

Group-level risk management takes into account the legal, regulatory and operational restrictions on the capacity to transfer liquidity between the Bank, overseas branches and subsidiaries.

The Bank's liquidity management is proactive and strict, both in using detailed models in 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 effective duration 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 was established 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 Risk Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

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.

For more information about directives by the Supervisor of Banks with regard to liquidity risk management and liquidity coverage ratio - see chapter on Legislation and Supervision of Bank Group Operations below.

Below is information about liquidity coverage ratio as of June 30, 2015[1] (NIS in millions):

	For the three-month period ended June 30, 2015	
	Total unweighted value[2] (Average)	Total weighted value[3] (Average)
Total high-quality liquid assets		
Total high-quality liquid assets		28,668
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	77,909	4,654
Stable deposits	23,648	1,183
Less than stable deposits	23,228	2,540
Deposits for terms longer than 30 days	31,033	931
Unsecured wholesale financing, of which:	43,087	30,776
Deposits other than for operational needs (all counter-parties)	42,924	30,613
Unsecured debt	163	163
Additional liquidity requirements, of which:	53,870	4,319
Outflows with respect to derivatives exposure and other collateral requirements	864	864
Credit lines and liquidity	15,195	1,017
Other contingent financing obligations	37,811	2,438
Total outgoing cash flows		39,749
Incoming cash flows		
Inflows from regularly repaid exposures	7,772	4,526
Other incoming cash flows	5,517	1,078
Total incoming cash flows	13,289	5,604

	Total adjusted value[4]
Total high-quality liquid assets	28,668
Total outgoing cash flows, net	34,145
Liquidity coverage ratio (%)	84%

(1) Information is presented in terms of simple average of daily observations during the reported quarter.
(2) Unweighted values are to be accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).
(3) Weighted values are to be accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).
(4) Adjusted value are to be calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Banking Conduct Directive 221).

Operating risks

Basel II provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II directives explicitly defined operating risk as the risk of loss due to failure or inappropriateness of internal procedures, people, systems or external events. Furthermore, Basel II, Pillar 1 includes capital requirements for operating risk. For details of the Basel II directives, see the chapter "Legislation and Supervision of Bank Group Operations" below. In the third quarter of 2014, the Bank completed a review of its handling of operating risk, including handling of fraud and embezzlement, in view of evolving common practice around the world in recent years. The Bank framework for handling operating risk includes collection of actual loss data, debriefing of any case of failure, conducting surveys at different Bank units, development of stress testing in case of extreme operating risk event, maintaining a training regime - partly through a special forum created for operating risk officers in the Bank's different units, review of the need to specify KRIs (Key Risk Indicators) and performance benchmarks for key processes carried out at the Bank and other actions in line with requirements stipulated by Directive 350 and the evolving global framework. Operating risk operations are supported by a central computer system - PSTL (Operating Risk Portal), which is currently being upgraded, with emphasis on immediate reporting to various Bank units through a custom module which is under development. In conjunction with addressing operating risk, the Bank is in the process of upgrading the lesson learning capacity of Bank units from actual operating events. The Bank has also started development of an advanced system for locating fraud and embezzlement. This system would be based on diverse methods for locating anomalies.

Cyber and information security

In accordance with Proper Banking Conduct Directives 357 and 361, the Bank appointed a Cyber and Information Security Manager, who reports to the Manager, Risk Control Division - the Bank's Chief Risk Officer. The unit is in charge of setting cyber and information 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 cyber and information security systems and processes. Cyber and information security policies at the Bank is implemented, inter alia, by the Mizrahi Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank. 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 cyber and information security policy emphasizes:

- 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.
- Mapping and identifying cyber risk.
- Establishing mechanisms for protection of online 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.
- Sharing of information and intelligence.
- 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 risk management as a whole.
- Current analysis and assessment of cyber threats.

In addition, the Bank's Online Banking sector is certified under the information security management standard ISO 27001.

Legal risk

Proper Banking Conduct Directive no/ 350 concerning "Operating 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 Risk 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 element of its activities, 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. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 7.C.4 to the financial statements.

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 updates. 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.

Compliance

Bank business operations are subject to regulation. Compliance risk is present in almost all business processes at the Bank, as implemented by various units throughout the organizational structure. Compliance risk is the risk of financial loss (including due to sanctions imposed by supervisory authorities) and of impact to reputation, due to Bank failure to comply with various statutory provisions applicable to the Bank. These provisions may originate in primary and secondary legislation as well as in directives from authorities which, by law, supervise the Bank.

The Manager, Risk 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 Conduct of Banking Business regulation 308 ("Compliance Officer"), the Bank appointed a Chief Compliance Officer (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 Risk Control Division, through the Division Manager (who serves as Chief Enforcement Officer for the Bank) and the Chief Compliance Officer act to instill a compliance culture throughout the Bank, including with regard to consumer regulations applicable to Bank relations with its clients, securities and anti-trust legislation, as well as requirements pursuant to US tax laws applicable to operations of the Bank Group outside the USA (FATCA - Foreign Account Tax Compliance Act).

On June 3, 2015, the Supervisor of Banks issued the new Proper Banking Conduct Directive 308, to be effective as from January 1, 2016, which significantly changes the roles and responsibilities of the compliance function. For details, see the chapter on Legislation and Supervision of Bank Group Operations below. The Bank is preparing to implement this directive.

On March 16, 2015, the Supervisor of Banks issued directives to banking corporations with regard to required action on management of risk arising from cross-border client activities (cross-border risk). This is given the increase in such risk and proceedings brought by various regulators around the world against financial institutions. For more information see the chapter on Legislation and Supervision of Bank Group Operations.

The person responsible for management of cross-border risk at the Bank Group is the Chief Risk Officer - the Manager, Risk Control Division, through the Chief Compliance Officer reporting to him. On this matter, the Cross-Border Forum was established, headed by the Chief Risk Officer and authorized to discuss issues associated with this risk and to make binding decisions so as to mitigate this risk, set policy on risk management, including review of appointments of those responsible for this matter at Bank units and to revise operating procedures and processes. Bank management has specified rules for identification of clients with foreign affiliation and for mitigating risk associated with doing business with such clients. Concurrently, a process is in place for management of this risk at overseas affiliates of the Bank, as well.

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risk 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 and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department 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.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. 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	Intermediate	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	Manager, Financial Division
Operating risk	Low	Manager, Risk Control Division
Cyber and information security	Intermediate	Manager, Risk Control Division
Compliance risk	Intermediate	Manager, Risk Control Division
Anti-money laundering risk	Low-medium	Manager, Risk Control Division
Legal risk	Low-medium	Chief Legal Counsel
Reputation risk(2)	Low	Manager, Marketing, Promotion and Business Development Division
Regulatory risk	Low	Management, each in their own domain
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 said 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 7.C.3(b-c) and 7.C.4 to the financial statements.

(2) The risk of impairment of the Bank's results due to negative reports about the Bank.

The degree of influence of the various risk factors in the above table were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and its outcome , under leadership of the Bank's risk managers.

The ICAAP process accounts for both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process. In the fourth quarter of 2014, as an integral part of the ICAAP process as part of the work plan discussions at the Bank for 2015, the Bank conducted self-assessment of the quality of risk management for risk mapped by the Bank. This process was based on rating the risk level and management quality, conducted independently by teams on behalf of risk managers and teams on behalf of risk control. This process added another dimension to the Bank's ability to evaluate the impact of different risk levels and their management quality on evolution of the Bank's risk profile given the specified risk appetite. When setting the risk level, Bank teams used, *inter alia*, the risk level scale approved by the Bank for 2015.

This scale specifies the potential loss due to each risk under normal market conditions and under turbulent market conditions (using stress testing) in terms of Bank capital and expected annual profit, as follows: Low risk is defined as potential for loss not to exceed 1% of Bank capital (monthly profit); medium risk is defined as potential for loss not to exceed 6% of Bank capital (semi-annual profit); and high risk is defined as potential for loss exceeding this amount.

As from the start of 2013, the Bank presents quarterly in its risk document the development of the Bank's risk profile in view of the specified risk appetite over the four quarters preceding the filing date of the risk document. This move, in addition to that conducted during discussion of the work plan, allows the Bank to regularly monitor the level of various risk exposures as well as the direction (volatility) of evolution of the Bank's risk profile.

Significant Events in the Bank Group's Business

Stock option plan for Bank managers

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 stock option plan is based on the principles of the stock option plan for Bank managers, approved on June 19, 2014, in conformity with the remuneration policy for Bank employees other than officers.

For more information, see Note 15.B. to the financial statements.

Legislation and Supervision 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 2010, 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.

In January 2013, the IRS published rules for implementation of the Act, and the Bank has prepared to implement these, as part of continuing preparations for implementation of the Act.

The Bank avoids 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 coordinate 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, in conformity with the directive).

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.

Application of the Supervisor's directive has no material impact on the Bank's financial statements.

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 early 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. Application of these regulations has no material impact on the Bank's financial statements.

Banking Decree (Early repayment commissions) (Amendment), 2014

On August 27, 2014, the Governor of the Bank of Israel issued an amendment to the Decree, which stipulates changes to calculation of the early repayment commission for housing loans or loans secured by a residential apartment, as well as changes to various operational aspects with regard to collection of such commission.

The Decree also applies to loans originated before it was issued and before it became effective.

It is assumed that the change in calculation of the early repayment commission would result in lower commissions collected by the Bank.

The Decree became effective on February 23, 2015. The Bank applies the provisions of the amendment to the Decree Application of this amendment to the Decree has no material impact on the Bank's financial statements.

Extension Decree for Promoting and Enhancing Employment of Persons with Disabilities – pursuant to the Collective Agreements Act, 1957

On September 21, 2014, the Extension Decree for Promoting and Enhancing Employment of Persons with Disabilities was signed ("Provision of Appropriate Representation") pursuant to the Collective Agreements Act (hereafter "the expansion ordinance").

The expansion decree stipulates expansion of the scope of provisions of the general collective agreement signed on June 25, 2014, between the Presidium of Business Associations and the New General Labor Union (hereafter: "the general collective agreement"). The expansion decree stipulates that provisions of the general collective agreement would apply to any employer with a staff of 100 or more employees.

According to the Decree, the employer should verify that as from the 1st anniversary of issuing the Decree, at least 2% (and as from the 2nd anniversary - at least 3%) of their staff are persons with disabilities. They are also required to appoint an officer responsible for employment of persons with disabilities in order to apply provisions of the Decree and for optimal integration of such persons in the workplace.

The Bank is acting to implement provisions of the Decree Application of this decree has no impact on the Bank's financial statements.

Regulations Governing Investment Advice, Investment Marketing and Investment Portfolio Management (Asset with regard to occupation exempt from licensing), 2014

Regulations Governing Investment Advice, Investment Marketing and Investment Portfolio Management (Asset with regard to occupation exempt from licensing), 2014 were enacted along with several other regulations:

- Mutual Funds Investment Regulations (Calculating returns) (Amendment), 2014
- Mutual Funds Investment Regulations (Reports) (Amendment), 2014
- Mutual Funds Investment Regulations (Fund classification for advertising) (Amendment), 2014
- Mutual Funds Investment Regulations (Assets which may be held and bought by a fund and the maximum share thereof) (Amendment), 2014
- Regulations Governing Investment Advice, Investment Marketing and Investment Portfolio Management (Asset with regard to occupation exempt from licensing), 2014

These regulations are designed to regulate a new product, which may be a substitute for bank CDs, namely "Deposit and loan fund" (KPM). In fact, KPM is a mutual fund in a sub-class of money market funds; the legislation has restricted the assets which may be held by such fund to the least risky of those assets which may be held in a money market fund - and with a shorter duration. Fund units may be bought / sold once a week, in order to ensure a high degree of certainty with regard to creations and redemptions, to reduce fund volatility and to provide information about the estimated annual yield inherent in fund assets (the regulations stipulate that the fund manager should report the estimated expected annual return of the fund on certain dates). This product has been excluded from the scope of the Investment Advice Occupation Act, so that it may also be offered by those not holding an investment advisor license. As of the report date, no KPM units have been issued by institutional investors and therefore, none have been offered by the Bank. Application of these regulations has no impact on the Bank's financial statements.

Banking Rules (Customer Service) (Due Disclosure and Document Delivery) (Amendment 2), 2014

On December 30, 2014, the second amendment to the Rules was published. According to the amendment, the Supervisor of Banks has been authorized to specify the types of agreements which would no longer require a client signature (out of the list of agreement types which must be in writing, as stipulated by the rules). Following this amendment, the Supervisor issued a directive which allows for online signing of the general terms of business / current account opening and management agreement (including an agreement which includes general terms and conditions for provision of various banking services), an agreement for making a deposit for a term longer than one year and an agreement concerning telephone orders. See also Proper Banking Conduct Directive no. 418 in chapter Supervisor of Banks below.

The amendment further stipulates that the bank should publish on its website agreements of certain types which constitute uniform contracts.

The amendment allows for delivery of documents - upon request by the client - through the website or by email.

For any client who has received from the bank any benefits for a term longer than 3 months - as from April 1, 2015, the bank would be required to inform the client of termination of such benefits, at least two weeks in advance.

The Bank is applying the amendments to the rules. Application of these amendments has no material impact on the Bank's financial statements.

Minimum Wage Act (Increase in minimum wage - Interim Provisions), 2015

In January 2015, the Minimum Wage Act (Increase in minimum wage - Interim Provisions), 2015 was made public, whereby the minimum wage would be updated in several steps from April 1, 2015 to January 1, 2017, to NIS 4,650 and to NIS 5,000, respectively. The Bank is in compliance with provisions of this Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions) (Amendment), 2015

On January 29, 2015, the amendment to commission rules was published and gradually come into effect on four different dates.

According to the amendment, as of the issue date of the amendment to the Rules, a client may, at any time, enroll or dis-enroll in commission tracks. It is also prohibited to charge commissions for debit cards as well as any housing loan management fees.

As from February 1, 2015 - for classification of a corporation as a small business, there is no longer a need to provide annual confirmation. Once a proper confirmation has been presented, the corporation would be deemed a small business and the bank may require additional confirmation - only should it have reasonable ground to believe that the business turn-over of the corporation in the most recent year exceeded NIS 5 million. As for the commission on making change in cash, the distinction between coins and banknotes has been eliminated. As for the payment commission - it may only be charged for transactions made through January 2015. The housing loan management fee commission was also eliminated.

As from April 1, 2015 - the commission for transactions / withdrawals in foreign currency using a credit card would be calculated at the official exchange rate.

As from July 1, 2015 - the changes regarding transaction settlement services on a debit card and discounting services for businesses - areas in which the Bank has no business.

The Bank is applying these amendments. Application of these amendments has no material impact on the Bank's financial statements.

Electronic voting system (Amendment 53 to the Securities Act, 1968; Securities Regulations (Voting in writing and proof of ownership of options for voting at General Meeting of option holders), 2014; Corporate Regulations (Voting in writing and position statements) (Amendment), 2014; Amendment of Partnership Ordinance Act (No. 5), 2015)

The ISA electronic voting system allows holders of shares, options and participation units to participate online in votes at General Meetings.

The Bank, being a stock exchange member, is subject to certain obligations with regard to voting using the voting system. Once a public company has issued a notice convening a General Meeting, the Bank must enter the list of those eligible to vote into the system; this list shall not include any holders who have informed the stock exchange member, by Noon on the effective date, that they wish to be excluded from this list. The Bank would issue, as soon as possible after receiving confirmation of delivery of the list, to each holder on the list who is eligible to vote using the system and who receive notifications from the Bank by electronic means, all of the information required for voting using the system.

The system started operation on June 17, 2015. Application of this amendment has no material impact on the Bank's financial statements.

Banking Decree (Customer Service) (Supervision of Notification Service), 2015

On May 26, 2015, the Decree was made public and became effective on July 1, 2015.

The notification service (notice of arrears in payments, alerts, notifications or alerts pursuant to the Checks Without Cover Act, 1981) was classified as a supervised service and the maximum amount which may be charged for this service is to be NIS 5 (instead of NIS 90 previously at Mizrahi Tefahot). The Bank applies the provisions of the Decree. Application of the Decree is not expected to have any material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions) (Amendment 2), 2015

On June 28, 2015, the rules were made public and became effective on July 1, 2015.

The amendment primarily applies to the card fee commission charged by banking corporations with regard to immediate debit cards, whereby banking corporations may not charge this commission for an immediate debit card issued to clients who own valid credit cards issued by the same banking corporation, for 36 months after issuing the immediate debit card. The Bank is applying these rules. Application of these rules is not expected to have any material impact on the Bank's financial statements.

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 risk management at the Bank the risk 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 liable parties. The Bank is acting to implement these provisions.

Supervisor of Banks

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 2015 shall be published no later than 50 days after the balance sheet date, and as from 2016 - 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 2015 and 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 June 29, 2015, the Supervisor of Banks issued a revised draft 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 Housing and the Supervisor of Banks announced the extension of this process through August 31, 2015. The Bank has joined this process and is properly implementing it. For more information see chapter "Household segment" on the financial statements as of December 31, 2014.

Updated format of public reports by a banking corporation

On April 28, 2015, the Supervisor of Banks issued a circular concerning with regard to an updated format 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. For more information see Note 1.D.3 to the financial statements.

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 is preparing to implement these instructions.

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. The directive is primarily based on Basel principles dated September 2000. This directive specifies the credit risk management structure required of a banking corporation, and the authority of different entities at the banking corporation with regard to credit risk management. These requirements adopt the approach whereby, in order to support appropriate decision making with regard to credit and to minimize the effect of any conflict of interest, strong involvement is required of an entity independent of the business units. Such involvement is particularly required in forming credit policies, classifying debt and determining provisions for credit losses. The directive further stipulates that decisions with regard to approval of material credit exposure would be made with reference to the opinion of the Risk Management function. The effective start date of this directive is January 1, 2014. The Bank has formulated a plan to apply the directive, which was presented in a letter sent to the Supervisor of Banks on July 31, 2013.

On November 23, 2014, the Supervisor of Banks issued a circular which amends Directive 311, which updates the principle of credit control so as to integrate requirements with regard to credit control within the risk management directive. This amendment eliminates Directive 319 "Credit control". The effective start date of these amendments is April 1, 2015.

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 regulation.

Proper Banking Conduct Directive 421 "Interest Rate Decrease or Increase"

On September 9, 2013, the Supervisor of Banks issued a directive with regard to interest rate decrease or increase. According to this directive, the Bank is required to apply, upon the date of change in interest rate on loans (for loans where the interest rate is not known or fixed throughout the loan term, or for loans originated in multiple parts), the same decrease or increase to the base interest rates applicable upon loan origination, except where the base interest is LIBOR, where in extreme cases, the Bank may specify a mechanism for changing the increase / decrease from base interest. The directive also applies, *mutatis mutandis*, to deposits where the interest rate is not known or fixed throughout the deposit term and to renewable deposits, unless the client withdraws part of the deposit amount during the deposit term or upon its renewal. The effective start date of this directive with regard to loans is January 1, 2014. The effective start date of this directive with regard to deposits is July 1, 2014 for new deposits, and as from the first renewal date later than six months after the effective start date of this directive (January 1, 2015) for renewed deposits in which the maturity date is unknown and to be determined. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 414 "Disclosure of cost of services involving securities"

On April 2, 2014, the Supervisor of Banks issued a circular with regard to disclosure of cost of services involving securities (Proper Banking Conduct Directive 414). According to this circular, banking corporations should present to clients charged a commission for purchase, sale or redemption of Israeli and/or foreign securities, a management fee for a securities deposit - comparative information about commission rates paid by clients who have deposits of similar value. The comparative information to be provided to clients would also be made public on the bank's website. The directive is effective as from January 1, 2015, based on data for the second half of 2014. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 403 "Non-banking benefits for clients"

On July 6, 2014, the Supervisor of Banks issued a directive concerning non-banking benefits for clients. This directive specifies rules and definitions for the distinction between banking benefits and non-banking benefits. The directive also specifies rules which limit the provision of non-banking benefits, stipulating that a non-banking benefit may not be made contingent on contracting with the bank for any term, on a requirement to return it or on consent to receive any advertising from the bank. The effective start date of this regulation is January 1, 2015. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

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 Conduct of Banking Business regulation 312). 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. The changes to the directive are effective as from January 1, 2015. 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 stated in 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 Banki9ng 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 regulation:

- 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 418 "Opening accounts online"

On July 15, 2014, the Supervisor of Banks issued a directive concerning opening accounts online. This directive is designed to allow for opening accounts online - subject to certain terms and conditions, as a step designed to increase competition in the banking system. The directive is effective as from its issue date, but any intention to offer such an action is to be reported to the Supervisor at least 60 days ahead of time.

On January 4, 2015, the Supervisor of Banks issued a clarification circular concerning account types and conditions which, if fulfilled, would not require an agreement to be signed by the client. This circular stipulates that clients would not be required to sign the general terms of business / current account opening and management agreement (including an agreement which includes general terms and conditions for provision of various banking services) which has been opened online, in conformity with Directive 418 as well as an agreement concerning telephone orders. This circular was issued in conjunction with publication of amendment (2) to Banking Rules (Customer Service) (Due Disclosure and Document Delivery), on the same issue, on December 30, 2014, as noted in chapter Laws and Regulations above. The Bank is preparing to apply this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 439 concerning "Standing orders"

On September 1, 2014, the Supervisor of Banks issued a circular concerning "Standing orders" (update to Proper Banking Conduct Directive 439), designed to address the difficulties faced by clients when moving standing orders from a bank account with one bank to another bank, by creating a fast, efficient process for transfer of standing orders without burdening the client - a process which the Supervisor of Banks has identified as a major barrier to switching banks. The changes to the directive are effective as from October 1, 2015.

In conformity with the Supervisor of Banks' letter dated August 4, 2015, the effective start date of the amendment to the directive was postponed until October 11, 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.

Proper Banking Conduct Directive 422 "Opening a current account with a credit balance and its management "

On September 26, 2014, the Supervisor of Banks issued a directive concerning opening a current account with a credit balance and its management. The directive is designed to clarify which services are an integral part of account management and in which cases the claim stating "reasonable refusal" to open an account would not be acceptable (with regard to Section 2(a)(2) of the Banking Act (Customer service), 1981). Parts of this directive are in effect as of the issue date and as of early September 2014. The section of this directive which stipulates that a debit card shall be one of the means of payment which banking corporations must provide to their clients upon request, is effective as from January 1, 2015. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

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 directive 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 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 Management".

Proper Banking Conduct Directive 308A concerning "Handling of complaints from the public"

On September 30, 2014, the Supervisor of Banks issued a circular with regard to handling of complaints from the public (Proper Banking Conduct Directive 308A). The circular adapts the Supervisor of Banks' procedures for handling complaints from the public, in conformity with adoption of principle 9 of high-level principles for consumer protection by financial services, issued by the OECD in order to improve handling by the banking system of complaints from the public. The directive stipulates, *inter alia*, that the banking corporation should specify a policy on handling complaints from the public on a group basis, shall create a custom function to handle enquiries from the public and shall appoint an ombudsman to head this function. The effective start date for this directive shall be no later than April 1, 2015. The Bank is applying this directive.

Application of this directive has no material impact on the Bank's financial statements.

Upon the publication of this directive, on August 2, 2015 the Supervisor of Banks issued amendments to the Public Reporting Regulations with regard to the annual public report about handling of complaints. According to the circular, as from the 2015 annual report, banking corporations shall issue an annual public report about handling of complaints. The Bank is preparing to apply these amendments.

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 325 "Management of credit facilities in current accounts"

On November 25, 2014, the Supervisor of Banks issued an amendment to the directive concerning management of credit facilities in current accounts. The amendment to the directive is designed to increase the amount up to which the bank would not be required to apply provisions of the directive concerning deviations, from NIS 1,000 to NIS 2,000 for "credit extended to individuals" and to NIS 5,000 for "commercial credit", as defined in the Public Reporting Directives. The effective start date of these changes to the directive is no later than January 1, 2015. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Proper Banking Conduct Directive 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 361 concerning "Management of cyber security"

On March 16, 2015, the Supervisor of Banks issued a Proper Banking Conduct Directive concerning management of cyber security. This directive is designed to emphasize the Supervisor's approach, whereby addressing cyber risk is a cross-organizational issue. The directive includes the Supervisor of Banks' requirements and expectations of banking corporations with regard to management of cyber security, including a structured, flexible framework for management of cyber risk. The effective start date of this directive is September 1, 2015. The Bank is preparing to implement this directive.

Proper Banking Conduct Directive 218 concerning "Leverage ratio"

On April 28, 2015, the Supervisor of Banks issued 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.

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 regulation was issued concurrently with the amendment to Regulation 311 concerning "Credit risk management" and the amendment to Regulation 323 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 to be given as from January 1, 2016. The Bank is preparing to implement this directive.

Proper Banking Conduct Directive s 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 risk 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 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 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 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 423 concerning "Bundled service"

On June 21, 2015, the Supervisor of Banks issued a new directive with regard to bundled service. The directive is designed to increase client awareness of bundled service. For new clients, the directive stipulates that banking corporations should provide them with an abbreviated price list for current account management as well as a sheet explaining "bundled service". For existing clients, the directive stipulates that banking corporations should provide clients who wish to enroll in a bundle with written information as specified in the regulation. The effective start date of this directive is January 1, 2016. The Bank is preparing to implement this directive.

Along with the amendment to the directive, the Supervisor of Banks sent a letter, instructing banks to identify clients, individuals and small businesses who have not joined the bundled service and who meet the criteria specified in the letter - and to send them a separate document listing information and ways to enroll in bundled service. This notification is to be sent by October 1, 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.

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 a required.

Proper Banking Conduct Directive 357 concerning "Risk management in cloud-based computing environment"

On June 29, 2015, the Supervisor of Banks issued a letter concerning risk management in cloud-based computing environment. The letter stipulates that banking corporations may not use cloud computing services for any core operations or systems and that cloud computing is an example of outsourcing, as defined in Regulation 357. The letter stipulates additional rules for corporate governance and risk management prior to contracting with a supplier or using any cloud computing technology. The instructions in this letter are effective as of issuance. The Bank is preparing to implement these instructions. Application of this directive has no material impact on the Bank's financial statements.

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 equally determined and in conformity with determination of remuneration of external Board members pursuant to the Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

The Bank is preparing to implement these instructions. Application of these amendments to the directive should not materially impact the financial statements.

Draft Proper Banking Conduct Directive s 203 and 204 concerning "Capital requirements with respect to exposure to central counter-parties"

On May 10, 2015, the Supervisor of Banks issued a draft directive concerning capital requirements with respect to exposure to central counter-parties. This draft amends the handling of counter-party credit risk and the internal rating based approach for credit risk (IRD) stipulated in Proper Banking Conduct Directive s 203 and 204.

Recommendations of Basel Committee on Banking Supervision ("Basel Committee")

The Basel Committee is an international body established in 1974 by the central banks of different countries. The Committee's decisions and recommendations, although they have no binding legal validity, prescribe the supervisory regulations acceptable to the supervisory bodies of the banking systems in a majority of countries throughout the world. On June 26, 2004, the Basel Committee published new recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries (hereinafter: ("Basel II"). A final, updated version of these regulations was published in June 2006. Basel II recommendations supersede the previous regulation dated 1988, known as Basel I, which included capital requirements due to credit risk, and was expanded in 1996 to include capital requirements for market risk as well.

Application of Basel II instructions improves measuring and management of different risk factors facing the financial institution, and ensures better alignment of capital requirements to the risk level to which the financial institution is exposed. Following the global financial crisis, the Basel Committee issued a new directive, known as Basel III. This directive is designed to handle the failings discovered in risk management and control processes during the crisis. For details see below.

Key recommendations of the Basel Committee

Whereas the Basel I regulation was mainly aimed at capital allocation for credit risk and market risk to which the financial institution is involved, Basel II expanded these regulations to afford better stability to financial institutions, by also implementing a culture concerning risk management and control. Therefore, Basel II regulations include, in addition to a material change in how capital is calculated (Pillar 1 of the regulations), also two other pillars, as specified below.

Basel II, Pillar 1 includes minimum capital allocation with respect to market risk, credit risk and operating risk. The guidelines stipulate how capital is allocated for credit risk by enabling calculation of the minimum capital using a standard model relying on external debt rating by rating agencies recognized by the regulatory authority (in Israel: the Supervisor of Banks) , uses a large number of exposure groups while adapting risk coefficients to the various groups, and recognizes financial collateral which may be offset against the exposure. The regulations allow banks to calculate the minimum capital requirement using internal models. These models are based on bank assessments of its borrowers' quality, used to calculate the probability of borrowers entering a state of credit default, and the expected loss to the bank in case of credit default. Use of internal models requires approval by the regulatory authority, which is only granted after extensive validation of the model. According to the Supervisor of Banks' instructions, capital allocation with respect to credit risk is calculated using the standard method.

In the area of market risk, capital allocation in Israel is determined based on a standard model which estimates the bank's exposure with respect to basis, interest and equity risk in the bank's negotiable portfolio.

In the area of operational risk, the guidelines propose several alternative approaches for calculating the required capital: The basic indicator approach, according to which the bank will allocate capital for operational risk as a fixed percentage of the average annual gross revenue over the past three years; the standard approach, in which the capital requirements are calculated by multiplying gross revenues from each line of business by a specific coefficient specific to that line of business; the advanced measurement approach, whereby the bank will allocate capital based on an internal model to be developed within the organization. According to the Supervisor of Banks' directives, capital allocation with respect to operating risk is calculated using the standard method.

Basel II recommendations specify multiple principles for operating risk management, relating to aspects such as: degree of supervision by bank management and Board of Directors, existence of suitable organizational structure and culture, including a system of internal reporting and an efficient and effective flow of information, the manner of risk assessment and measurement and the existence of appropriate support systems. The department handling operating risk is required to act in order to map and identify operating risk, collect actual failure data and take action to reduce potential damage arising from an operating failure at the bank. Basel II principles further stipulate the responsibility of the Internal Auditor as an additional line of defense in handling operating risk.

Basel II Pillar 2 involves the Supervisory Review Process (SREP) and the Internal Capital Adequacy Assessment Process (ICAAP) aimed at ensuring that bank capital is in line with its risk profile. This is over and above the minimum capital the bank is required to maintain pursuant to Pillar 1. This includes, *inter alia*, a review of the required capital due to other risk not included in the minimum capital requirement of Pillar 1, such as interest risk in the bank portfolio, concentration risk etc. Furthermore, the directives for this pillar review the bank’s risk management processes, risk control processes, level of the bank’s corporate governance with regard to risk management, reporting and process management closely linked to risk management and the corporation’s capital and profit.

In addition, Pillar 2 mandates checking if the bank has enough capital to meet its strategic plan, and if it has enough capital to protect against stress conditions and economic crises which may occur and which may impact the bank. Therefore, stress tests are an important tool in estimating the capital required of banks, and these feature prominently in Pillar 2 of the directive.

Basel II Pillar 3 involves reporting and disclosure to the regulating authority and to the public. This requires the bank to provide detailed, extensive disclosure of its risk level and its risk management processes. In October 2009, the Bank received detailed instructions concerning implementation of disclosure requirements for implementation of Basel II Pillar 3, and the Bank applies these requirements in these financial statements.

Application of the Basel Committee recommendations by the Israeli banking system

In Israel, Basel Committee recommendations have been implemented in Proper Banking Conduct Directive as follows:

Proper Banking Conduct Directive 201 - Introduction, scope and requirement calculation;

Proper Banking Conduct Directive 202 - Supervisory capital;

Proper Banking Conduct Directive 203 - Calculation of capital required with respect to credit risk using the standard approach;

Proper Banking Conduct Directive 204 - Calculation of capital required with respect to credit risk using the internal rating approach;

Proper Banking Conduct Directive 205 - Handling of securitization transactions;

Proper Banking Conduct Directive 206 - Calculation of capital required with respect to operating risk;

Proper Banking Conduct Directive 208 - Calculation of capital required with respect to market risk;

Proper Banking Conduct Directive 211 - Directives for assessment process of appropriateness of capital adequacy at banking corporations (Pillar 2);

Pillar 3, which outlines directives and expectations with regard to market discipline (disclosure requirements), was incorporated into the collection of Public Reporting Regulations. On February 14, 2011, the Supervisor of Banks issued a circular which stipulates that as from January 1, 2011, the capital requirements included in Proper Banking Conduct Directive 311 (Basel I).

The disclosure stipulated by the Supervisor of Banks, in accordance with Pillar 3 requirements, is included below. The Bank's capital adequacy as of the report date, in the disclosure format set by the Supervisor of Banks, is presented in Note 5 to the financial statements.

Under Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), the Bank has been acting in recent years to integrate a risk management and control framework. ICAAP is a comprehensive process in which senior Bank executives are involved. In this process, the Bank has identified and mapped the material risk associated with its business, has specified its risk appetite for that risk, has created policy documents for risk to which the Bank is exposed in the course of its operations, which are updated on a regular basis. The risk appetite, risk mapping and determination of their materiality , as well as the current policies documents are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on an annual basis.

In May 2014, the Bank submitted to the Bank of Israel its ICAAR document (annual report for the ICAAP process referring to December 31, 2013), which reflects the Bank's assessment of the capital required to cover all risk to which the Bank is exposed in conjunction with its business operations, as per guidance from the Bank of Israel, and in coordination with Bank of Israel comments on the SREP process conducted at the Bank. The capital assessment includes qualitative and quantitative processes, including a self-review by the Bank of the quality of its risk management and control. The capital assessment was conducted by applying a range of stress testing methods, in line with Bank of Israel requirements. These methods include, as from the current process, the outcome of the uniform stress scenario (macro-economic scenario), conducted in accordance with principles stipulated by the Bank of Israel.

Results of the capital assessments conducted within this document, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed and in view of its business objectives and strategic plan, both under normal and stress conditions. The Bank is preparing to prepare the next document by the end of 2015, in conformity with Bank of Israel directives.

In conjunction with implementation of Pillar 2, the Bank continues to follow its work plan for eliminating the gaps identified vs. the Basel Committee requirements in various risk areas, to upgrade the activity of various forums established to handle issues of risk management and control and capital management at the Bank and to improve its policies documents with regard to risk management and capital management in conformity with Pillar 2 directives, other directives by the Bank of Israel with regard to risk management and control and evolving best practice in this field - primarily with the implementation of Basel III.

On November 26, 2013, the Supervisor of Banks issued an interim directive with regard to application of disclosure requirements pursuant to Basel II, Pillar 3 – Disclosure with regard to remuneration. The new disclosure requirements were designed to support and to allow market users to assess the quality of remuneration methods and how they support the strategies and risk position of banking corporations. Disclosure requirements apply to annual financial statements as from January 1, 2014. For more details, see chapter Risk Management below.

Basel III

In late 2010, the Basel Committee adopted a new directive, known as Basel III. This directive, the result of the recent crisis in global markets, consists of multiple amendments to the Basel II directive, including: Strengthening of capital base, increase in minimum capital ratios, specification of new benchmarks and methodologies for handling liquidity risk, reinforced methodology for handling counter-party risk, specification of the leverage ratio as a new ratio as part of risk management benchmarks and other processes designed to improve risk management and control capacity at financial institutions. According to the Committee-specified schedule, this directive would be gradually applied world-wide starting in 2013.

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 then required. According to the directive, all banking corporations are 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 instruction with regard to a minimum core capital ratio of 10% does not apply to the Bank. The core capital ratio is calculated based on Basel III directives with adjustments specified by the Supervisor of Banks.

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, on the same date, to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Banking Conduct Directives 201-211 concerning adoption of Basel III instructions with regard to supervisory capital and with regard to risk assets (hereinafter: "the directives").

The amendments to the directives are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.

Effect of implementation of Basel III directives

Below are the major effects of implementation of these directives:

Deferred taxes due to temporary differences - Deferred taxes due to temporary differences (and up to 10% of Tier I capital) - weighted at 250% risk weighting.

Group-based provision for credit losses - The group-based provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk. Conversely, the provision amount was added to weighted risk assets for credit risk.

Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as of December 31, 2013 and a 10% deduction annually through January 1, 2022.

Minority interest - The amount of minority interest recognized as capital has been limited, and excess capital of a subsidiary may not be recognized.

Capital allocation with respect to CVA losses (Credit Value Adjustments) - losses due to revaluation at market value with respect to counter-party credit risk – In addition to a 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.

For more information about major amendments included in these directives, the effect of application of the rules on the Bank's capital adequacy ratio and effect of transition provisions on Tier I capital ratio - see Note 5 to the financial statements.

For further information about the Bank's capital adequacy ratio see reference under section "Capital adequacy" in the chapter "Risk Management" – "Basel II: Pillar 3 - Market Discipline".

Following the publication of these directives, the Bank has revisited, at that time, its compliance with the schedule 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, 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, 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.

For information about buy-back of Bank shares, see chapter Investments in Bank Capital and Transactions in Bank Shares above.

On December 23, 2014, in addition to updating the Bank's strategic plan (as described in the chapter "Business strategy" below), the Bank’ 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 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 specified in the revised strategic plan.
In 2017, the dividend policy 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 dividend policy.

Note that dividend distribution is subject to statutory provisions and to restrictions specified by the Supervisor of Banks, as described in Note 13 to the 2014 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.

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 capital 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%.

Following implementation of this directive, the required target ratios for 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.**

For more information on the Board of Directors' decisions to distribute dividends with respect to earnings of the first and second quarters of 2015, see chapter Dividends above.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 7.C.(2-4) to the financial statements.

Inquiry by the US Department of Justice

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 7.C.3(b-c) and 7.C.4 to the financial statements.

Other Matters

The Independent Auditor has drawn attention in their review report to Note 7.C.3(a-c) to the financial statements, with regard to claims filed against the Bank, including motions for class action status, as well as to Note 7.C.4 with regard to the US DOJ inquiry with regard to Bank Group business with its US clients.

Corporate accountability

Bank Mizrahi-Tefahot incorporates principles of corporate accountability in all its activities, based on the belief that a business enterprise in touch with the environment, operating within society and benefiting economically from its relationship there with, would be accountable for what is going on in its environment and would reinvest resources and efforts to benefit the community and the environment.

In May 2014, Bank management and the Board of Directors approved the corporate accountability policy and in July 2014, the Bank issued its first report on corporate accountability for the period 2012-2013. This report was approved by the Global Reporting Initiative (GRI) and was rated A+ for transparency (the highest rating).

This report describes operations of the entire Mizrahi Tefahot Group (including subsidiaries, Bank Yahav and overseas affiliates), was published in Hebrew and in English and is available on the Bank website.

In May 2014, Bank management decided that the report is to be compiled and published annually, in conformity with the GRI4-comprehensive standard. Accordingly, the Bank specified material issues to be covered in the report and set policy on each of these matters.

The Bank's Corporate Accountability Report is available on its website:

www.mizrahi-tefahot.co.il >> Information about Mizrahi-Tefahot >> Investor Relations >> Corporate Accountability

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 Board of Directors of Bank Yahav has approved the project work plan. The project is on-going according to schedule and the system is expected to go live in 2016 (in conformity with approval from the Bank of Israel and agreements between Bank Yahav and other third parties). The first version of the system has been delivered to Bank Yahav and is undergoing review and testing.

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.

Senior Officers

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

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2014 financial statements. No material changes occurred in these details during the reported period.

Accounting Policies on Critical Matters

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) for interim periods, and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. Highlights of accounting policies are described in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2014.

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.

The Bank's 2014 financial statements include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, share-based payment transactions, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

In conformity with the Supervisor of Banks' directives with regard to adoption of US GAAP with regard to employee rights, the accounting policy on this matter has been revised. See Note 1.C.1 to the financial statements for further information.

Provision for legal claims and 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 and contingent liabilities 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 or contingent liability. For claims or contingent liabilities 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 20%-70% that a loss will be sustained from the claim or contingent liability. For claims or contingent liabilities 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 lower than 20% that a loss will be sustained from the claim or contingent liability. For claims or contingent liabilities whose probability of realization has been classified as Remote, no provision was made in the financial statements.

In Note 19.D to the annual financial statements, disclosure is provided for material claims and contingent liabilities whose amount (excluding interest and expenses) exceeds 1% of shareholder equity attributable to equity holders of the Bank and in Note 7 to these financial statements, disclosure is provided for material changes from those in the annual financial statements.

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 7.C.4 to the financial statements.

Other than the foregoing, during the reported period there were no changes to Bank accounting policies on critical issues, which are listed in the Board of Directors' report on the financial statements as of December 31, 2014.

Certification Process of the Financial Statements

The organ in charge of audit supervision at the Bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are stipulated in the Board of Directors' report as of December 31, 2014 (for changes in 2015, see chapter "Board of Directors" below). The processes of preparing, auditing and approving the financial statements involve additional organs and officers as stated below.

Bank financial statements are prepared by a professional department, headed by the Chief Accountant, pursuant to directives and guidance from the Supervisor of Banks and in accordance with the disclosure policies set by the Bank's Board of Directors.

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of Bank executives, see the chapter on Bank management on the financial statements as of December 31, 2014 (for changes in 2015, see chapter "Senior Officers" above).

The process of provision for credit losses is a methodical process, whereby results of discussions by various sub-committees which handle troubled debt and the Bank's credit exposure, are consolidated under a committee headed by the Chief Accountant. This committee has the following members: Manager, Business Division (Credit Risk Officer); Manager, Retail Division; Manager, Risk Control Division (CRO); relevant sector managers and other credit professionals. The committee discusses classified clients individually. The committee also discusses, together with the Chief Legal Counsel and Legal Division professionals, the required provisions with respect to claims filed against the Bank. The outcome of such discussion determines the appropriate classification and provision for each client. The committee also discusses the group-based provision for various economic sectors. The outcome of this discussion determine the anticipated provision rates and the qualitative adjustments required to group-based provision rates. The Bank also operates a Provision for Credit Losses Committee headed by the President. This committee further discusses individual classification and provisions for major clients and determines the appropriateness of the total provision for credit losses, including group-based provisions. The committee headed by the President includes the Manager, Business Division (Credit Risk Officer); Manager, Retail Division; Manager, Finance Division; Chief Accountant; Manager, Risk Management Division (CRO), Chief Legal Counsel; and professional credit staff.

Matters of principal with regard to disclosure in the financial statements are discussed by the Financial Statements Disclosure Committee ("the Disclosure Committee") headed by the President and including the Chief Accountant, Chief Legal Counsel and other members of the Executive Management. These discussions include issues with material impact on the financial statements, issues of interest to the public, developments requiring disclosure to the public, material changes to application of accounting policy, internal control over financial reporting, requests or demands by regulatory authorities and issues on which Bank management and the independent auditor differ. As part of presentation of these issues to the Disclosure Committee, the independent auditors' professional comments are also presented.

The Board of Directors' Audit Committee discusses and recommends the approval of the Bank's annual and quarterly financial statements (for names and qualifications of Audit Committee members, see Board of Directors chapter on the December 31, 2014 financial statements.

The Audit Committee discusses the appropriateness of disclosure on the financial statements and the review of the financial statements, including all of their components, including classification of and provision for credit losses for problematic debt and provisions for claims filed against the Bank, prior to having these discussed and approved by the Board plenum.

The Audit Committee reviews the assessments and estimates made in conjunction with the financial statements, internal controls associated with financial reporting, completeness and appropriateness of disclosure on financial statements; accounting policies adopted and accounting treatment applied to material issues of the corporation; valuations, including underlying assumptions and estimates, on which data on the financial statements relies.

Meetings of the Audit Committee at which the financial statements are discussed, are also attended by the Chairman of the Board of Directors, the Bank President & CEO, the Chief Accountant, the Chief Legal Counsel and the independent auditors. The CRO and Chief Internal Auditor are invited to attend Committee meetings.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Sections 302 and 404 of the US Sarbanes-Oxley Act, the Audit Committee receives a report on any significant fault discovered in the disclosure processes or in internal controls over financial statements. These discussions are also attended by the Internal Auditor and the independent auditors. Any report of significant faults is also presented to the Board of Directors.

The Audit Committee convenes twice to discuss the quarterly financial statements and three times to discuss the annual financial statements, with the final meeting usually held, if possible, at least several days prior to the Board of Directors plenary meeting to approve the financial statements.

After discussions are concluded by the Audit Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, so that Board members receive the documents at least three days prior to the discussion there of by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and analysis The Chair of the Audit Committee presents the Audit Committee's recommendations to the Board of Directors - with regard to issues discussed by the Committee and to approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the Bank President & CEO, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

At the end of this discussion, a resolution is passed to approve the Bank's financial statements and to authorize the Chairman of the Board of Directors, the Bank President & CEO and the Chief Accountant to sign the financial statements.

Board of Directors

During the first half of 2015, the Bank Board of Directors held 9 plenary meetings, of which 1 meeting by telephone. During this period there were also 25 meetings of Board committees and 2 Board member workshops.

At the Board meeting held on January 19, 2015, the Board resolved to convene an extraordinary General Meeting 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 Meeting of Bank shareholders approved the appointment of Mr. Avraham Zeldman as Board member of the Bank. Upon his appointment, the number of Board members having accounting and financial qualifications is 11.

On March 16, 2015, the Bank Board of Directors approved the appointment of Mr. Avraham Zeldman as a member of the Risk 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 Risk Management Committee.

On May 18, 2015, the Bank Board of Directors resolved to appoint Mr. Moshe Vidman as Chairman of the Bank Board of Directors for a further term in office, from December 1, 2015 through December 31, 2017. The Chairman's terms of office and employment for the additional term in office would be brought for discussion and approval by the qualified Bank organs.

At the Board meeting held on June 1, 2015, the Board resolved to convene an extraordinary General Meeting 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 Meeting of Bank shareholders approved the appointment of Mr. Gideon Sitterman as an external Board member of the Bank for such further term.

Controls and Procedures

In accordance with the Public Reporting Regulations of the Supervisor of Banks, based on Section 302 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"). This directive of the Supervisor of Banks is part of overall policies regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, inter alia, certification by the Chairman of the Board of Directors, the Bank President and Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2014.

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 Disclosure Certification is not meant to cover the broad aspects of "the Effectiveness of the Internal Controls on the Financial Reporting", as noted.

At the end of the period covered by this Report, the Bank's management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

During the quarter ended June 30, 2015, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

Moshe Vidman	**Eldad Fresher**
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan,
August 16, 2015

Management Discussion of Group Business and Operating Results

Table of Contents

Management Discussion - Addendum A
Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Average balance [2]	Interest revenues	Revenue rate	Average balance [2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public [3]						
In Israel	147,219	[7]1,771	4.90	[11]139,356	[7]1,537	4.49
Outside of Israel	2,554	26	4.13	1,903	25	5.36
Total	149,773	1,797	4.89	141,259	1,562	4.50
Loans to the Government						
In Israel	295	2	2.74	303	2	2.67
Outside of Israel	-	-	-	-	-	-
Total	295	2	2.74	303	2	2.67
Deposits with banks						
In Israel	1,117	2	0.72	1,324	5	1.52
Outside of Israel	487	3	2.49	197	1	2.05
Total	1,604	5	1.25	1,521	6	1.59
Deposits with central banks						
In Israel	19,610	4	0.08	24,062	43	0.72
Outside of Israel	4,402	-	-	596	-	-
Total	24,012	4	0.07	24,658	43	0.70
Securities loaned or purchased in repurchase agreements						
In Israel	187	-	-	130	-	-
Outside of Israel	-	-	-	-	-	-
Total	187	-	-	130	-	-
Debentures held to maturity and available for sale [4]						
In Israel	12,935	37	1.15	5,097	19	1.50
Outside of Israel	1,141	4	1.41	1,058	4	1.52
Total	14,076	41	1.17	6,155	23	1.50
Debentures held for trading[5]						
In Israel	620	2	1.30	938	3	1.29
Outside of Israel	-	-	-	-	-	-
Total	620	2	1.30	938	3	1.29
Total interest-bearing assets	190,567	1,851	3.94	174,964	1,639	3.80
Receivables for credit card operations	2,996			2,870		
Other non-interest bearing assets[6]	6,513			6,962		
Total assets	200,076			184,796		
Total interest-bearing assets attributable to operations outside of Israel	8,584	33	1.55	3,754	30	3.24

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Average balance [2]	Interest expenses	Revenue rate	Average balance [2]	Interest expenses	Revenue rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	6,598	6	0.36	[11]5,439	5	0.37
Term deposits	111,775	464	1.67	[11]120,182	[11]483	1.62
Outside of Israel						
On-call	894	-	-	628	-	-
Term deposits	2,639	6	0.91	3,727	7	0.75
Total	121,906	476	1.57	129,976	495	1.53
Deposits from the Government						
In Israel	58	1	7.08	58	-	-
Outside of Israel	-	-	-	-	-	-
Total	58	1	7.08	58	-	-
Deposits from banks						
In Israel	1,017	10	3.99	1,108	5	1.82
Outside of Israel	-	-	-	22	-	-
Total	1,017	10	3.99	1,130	5	1.78
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	120	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	120	-	-	-	-	-
Debentures and subordinated notes						
In Israel	21,094	277	5.36	18,078	215	4.84
Outside of Israel	-	-	-	-	-	-
Total	21,094	277	5.36	18,078	215	4.84
Other liabilities						
In Israel	743	5	2.72	[11]116	[11]1	3.49
Outside of Israel	-	-	-	-	-	-
Total	743	5	2.72	116	1	3.49
Total interest-bearing liabilities	144,938	769	2.14	149,358	716	1.93
Non-interest bearing deposits from the public	32,488			[11]16,790		
Payables for credit card transactions	2,996			2,870		
Other non-interest bearing liabilities[8]	7,974			[12]5,206		
Total liabilities	188,396			174,224		
Total equity resources	11,680			[12]10,572		
Total liabilities and equity resources	200,076			184,796		
Interest margin			1.80			1.87
Net return[9] on interest-bearing assets						
In Israel	181,983	1,055	2.34	171,210	900	2.12
Outside of Israel	8,584	27	1.26	3,754	23	2.47
Total	190,567	1,082	2.29	174,964	923	2.13
Total interest-bearing liabilities attributable to operations outside of Israel	3,533	6	0.68	4,377	7	0.64

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Average balance [2]	Interest revenues	Revenue rate	Average balance [2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public [3]						
In Israel	146,077	2,239	3.09	[11]138,000	[7]2,438	3.56
Outside of Israel	2,527	51	4.08	2,169	50	4.66
Total	148,604	2,290	3.11	140,169	2,488	3.58
Loans to the Government						
In Israel	297	4	2.71	303	5	3.33
Outside of Israel	-	-	-	-	-	-
Total	297	4	2.71	303	5	3.33
Deposits with banks						
In Israel	2,170	3	0.28	1,419	12	1.70
Outside of Israel	465	5	2.16	254	2	1.58
Total	2,635	8	0.61	1,673	14	1.68
Deposits with central banks						
In Israel	19,174	13	0.14	23,525	79	0.67
Outside of Israel	3,803	-	-	920	-	-
Total	22,977	13	0.11	24,445	79	0.65
Securities loaned or purchased in repurchase agreements						
In Israel	293	-	-	236	1	0.85
Outside of Israel	-	-	-	-	-	-
Total	293	-	-	236	1	0.85
Debentures held to maturity and available for sale [4]						
In Israel	11,840	71	1.20	4,700	28	1.20
Outside of Israel	1,161	8	1.38	1,086	8	1.48
Total	13,001	79	1.22	5,786	36	1.25
Debentures held for trading[5]						
In Israel	747	7	1.88	[11]1,019	7	1.38
Outside of Israel	-	-	-	-	-	-
Total	747	7	1.88	1,019	7	1.38
Total interest-bearing assets	188,554	2,401	2.56	173,631	2,630	3.05
Receivables for credit card operations	2,981			[11]2,873		
Other non-interest bearing assets[6]	7,211			[12]5,874		
Total assets	198,746			182,378		
Total interest-bearing assets attributable to operations outside of Israel	7,956	64	1.62	4,429	60	2.73

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Average balance [2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance [2]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	6,376	(7)	(0.22)	[11]5,604	10	0.36
Term deposits	113,593	426	0.75	[11]115,856	[11]704	1.22
Outside of Israel						
On-call	823	-	-	641	-	-
Term deposits	3,134	13	0.83	3,460	15	0.87
Total	123,926	432	0.70	125,561	729	1.16
Deposits from the Government						
In Israel	57	2	7.14	60	1	3.36
Outside of Israel	-	-	-	-	-	-
Total	57	2	7.14	60	1	3.36
Deposits from banks						
In Israel	1,230	11	1.80	1,562	11	1.41
Outside of Israel	-	-	-	7	-	-
Total	1,230	11	1.80	1,569	11	1.41
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	154	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	154	-	-	-	-	-
Debentures and subordinated notes						
In Israel	20,249	180	1.79	17,498	251	2.89
Outside of Israel	-	-	-	-	-	-
Total	20,249	180	1.79	17,498	251	2.89
Other liabilities						
In Israel	852	(5)	(1.17)	[11]352	[11]2	1.14
Outside of Israel	-	-	-	-	-	-
Total	852	(5)	(1.17)	352	2	1.14
Total interest-bearing liabilities	146,468	620	0.85	145,040	994	1.38
Non-interest bearing deposits from the public	29,399			[11]18,934		
Payables for credit card transactions	2,981			2,873		
Other non-interest bearing liabilities[8]	8,346			[12]5,099		
Total liabilities	187,194			171,946		
Total equity resources	11,552			[12]10,432		
Total liabilities and equity resources	198,746			182,378		
Interest margin			1.71			1.68
Net return[9] on interest-bearing assets						
In Israel	180,598	1,730	1.93	169,202	1,591	1.89
Outside of Israel	7,956	51	1.29	4,429	45	2.04
Total	188,554	1,781	1.90	173,631	1,636	1.89
Total interest-bearing liabilities attributable to operations outside of Israel	3,957	13	0.66	4,108	15	0.73

See remarks below.

Management Discussion - Addendum A - continued
Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Average balance [2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance [2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	116,348	860	2.99	[11]104,321	863	3.35
Total interest-bearing liabilities	83,599	(146)	(0.70)	[11]86,650	[11](248)	(1.15)
Interest margin			2.29			2.20
Israeli currency - linked to the CPI						
Total interest-bearing assets	52,067	877	6.91	53,606	678	5.16
Total interest-bearing liabilities	37,656	(576)	(6.26)	37,333	[11](439)	(4.79)
Interest margin			0.65			0.37
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,568	81	2.41	13,283	68	2.06
Total interest-bearing liabilities	20,150	(41)	(0.82)	[11]20,998	(22)	(0.42)
Interest margin			1.59			1.64
Total - operations in Israel						
Total interest-bearing assets	181,983	1,818	4.06	171,210	1,609	3.81
Total interest-bearing liabilities	141,405	(763)	(2.18)	144,981	(709)	(1.97)
Interest margin			1.88			1.84

See remarks below.

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Average balance [2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance [2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	114,359	1,696	2.99	[11]102,449	1,729	3.40
Total interest-bearing liabilities	83,903	(267)	(0.64)	[11]86,150	[11](463)	(1.08)
Interest margin			2.35			2.32
Israeli currency - linked to the CPI						
Total interest-bearing assets	52,438	464	1.78	53,477	702	2.64
Total interest-bearing liabilities	37,528	(262)	(1.40)	37,109	(474)	(2.57)
Interest margin			0.38			0.07
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,801	177	2.58	13,276	139	2.10
Total interest-bearing liabilities	21,080	(78)	(0.74)	[11]17,673	(42)	(0.48)
Interest margin			1.84			1.62
Total - operations in Israel						
Total interest-bearing assets	180,598	2,337	2.60	169,202	2,570	3.06
Total interest-bearing liabilities	142,511	(607)	(0.85)	140,932	(979)	(1.39)
Interest margin			1.75			1.67

See remarks below.

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	For the three months ended June 30, 2015 compared to the three months ended June 30, 2014			For the six months ended June 30, 2015 compared to the six months ended June 30, 2014		
	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	95	139	234	124	(323)	(199)
Outside of Israel	7	(6)	1	7	(6)	1
Total	102	133	235	131	(329)	(198)
Other interest-bearing assets						
In Israel	4	(29)	(25)	9	(43)	(34)
Outside of Israel	5	(3)	2	8	(5)	3
Total	9	(32)	(23)	17	(48)	(31)
Total interest revenues	111	101	212	148	(377)	(229)
Interest-bearing liabilities						
Deposits from the public						
In Israel	(29)	11	(18)	(5)	(290)	(295)
Outside of Israel	(1)	-	(1)	-	(2)	(2)
Total	(30)	11	(19)	(5)	(292)	(297)
Other interest-bearing liabilities						
In Israel	47	25	72	26	(103)	(77)
Outside of Israel	-	-	-	-	-	-
Total	47	25	72	26	(103)	(77)
Total interest expenses	17	36	53	21	(395)	(374)

(1) Information in these tables is after effect of hedging financial derivatives.
(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 (to) the average balance of debentures available for sale, for the three-month periods ended June 30, 2015 and June 30, 2014, and for the six-month periods ended June 30, 2015 and June 30, 2014, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (6) million, NIS 13 million, NIS (1) million and NIS 10 million, respectively.
(5) From the average balance of debentures held for trade, for the three-month periods ended June 30, 2015 and June 30, 2014, and for the six-month periods ended June 30, 2015 and June 30, 2014, we deducted the average balance of unrealized gains from adjustment to fair value of debentures held for trade amounting to NIS (2) million, NIS 1 million, NIS (1) million and NIS (9) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 143 million, NIS 175 million, NIS 262 million and NIS 287 million were included in interest revenues for the three-month periods ended June 30, 2015 and June 30, 2014 and for the six-month periods ended June 30, 2015 and June 30, 2014, 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) 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.

Management Discussion - Addendum B

Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	June 30, 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 to 5 years	Over 5 to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	88,723	3,239	3,491	7,317	10,124	5,732
Financial derivative instruments (other than options)	7,828	7,683	32,592	12,388	9,019	8,842
Options (in terms of underlying asset)	970	1,471	1,834	123	111	-
Total fair value	97,521	12,393	37,917	19,828	19,254	14,574
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	71,358	5,899	17,901	5,767	4,436	2,697
Financial derivative instruments (other than options)	22,243	16,434	20,664	9,629	8,270	8,482
Options (in terms of underlying asset)	1,873	1,259	1,581	270	111	-
Total fair value	95,474	23,592	40,146	15,666	12,817	11,179
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	2,047	(11,199)	(2,229)	4,162	6,437	3,395
Cumulative exposure in sector	2,047	(9,152)	(11,381)	(7,219)	(782)	2,613

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) Restated. For more information about adoption of the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1. to the financial statements.

			June 30, 2015				June 30, 2014			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]	Total fair value	Internal rate of return	Average effective duration[2]
				In %	In years		In %	In years		In %	In years
2,187	143	410	121,366	3.04	1.08	109,424	3.43	0.81	117,262	3.43	0.88
1,024	-	-	79,376		1.18	62,313		1.22	74,729		1.19
-	-	-	4,509		0.73	4,037		0.73	7,967		0.73
3,211	143	410	205,251		1.11	175,774		0.95	199,958		0.99
513	221	-	108,792	1.12	0.68	[3]104,427	1.13	0.50	[3]106,780	0.97	0.48
1,020	-	-	86,742		1.37	64,784		1.51	82,788		1.38
-	-	-	5,094		0.85	6,240		0.85	8,914		0.85
1,533	221	-	200,628		0.98	175,451		0.89	198,482		0.87
1,678	(78)	410	4,623			[4]323			[4]1,476		
4,291	4,213	4,623	4,623								

Management Discussion - Addendum B - Continued
Exposure of the Bank and its Subsidiaries to changes in interest rates
Reported amounts (NIS in millions)

	June 30, 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 to 5 years	Over 5 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)]	1,612	2,494	11,017	21,648	11,270	3,777
Financial derivative instruments (other than options)	63	46	309	952	1,230	482
Total fair value	1,675	2,540	11,326	22,600	12,500	4,259
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[(1)]	596	1,552	6,585	10,703	12,011	6,479
Financial derivative instruments (other than options)	810	848	3,126	4,557	2,198	372
Total fair value	1,406	2,400	9,711	15,260	14,209	6,851
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	269	140	1,615	7,340	(1,709)	(2,592)
Cumulative exposure in sector	269	409	2,024	9,364	7,655	5,063

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) Restated. For more information about adoption of the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1. to the financial statements.

June 30, 2015						June 30, 2014			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]	Total fair value	Internal rate of return	Average effective duration[2]
				In %	In years		In %	In years		In %	In years
1,082	41	63	53,004	2.29	2.68	55,712	2.17	3.11	54,627	2.60	2.66
-	-	-	3,082		3.27	3,864		3.32	3,618		3.16
1,082	41	63	56,086		2.71	59,576		3.12	58,245		2.69
2,309	-	2	40,237	1.04	3.73	[4]40,114	1.70	3.67	[4]40,631	1.21	3.37
-	-	-	11,911		1.53	11,571		1.63	10,617		1.68
2,309	-	2	52,148		3.23	51,685		3.21	51,248		3.02
(1,227)	41	61	3,938			[4]7,891			[4]6,997		
3,836	3,877	3,938	3,938								

Management Discussion - Addendum B - Continued

Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	June 30, 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]	11,581	4,841	1,766	458	193	1,954
Financial derivative instruments (other than options)	32,407	16,939	23,871	4,705	4,868	2,934
Options (in terms of underlying asset)	1,544	2,019	1,890	250	108	-
Total fair value	45,532	23,799	27,527	5,413	5,169	4,888
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[2]	19,975	7,790	9,117	640	80	203
Financial derivative instruments (other than options)	17,726	7,877	32,579	4,198	5,009	3,105
Options (in terms of underlying asset)	1,269	1,505	2,125	124	108	-
Total fair value	38,970	17,172	43,821	4,962	5,197	3,308
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	6,562	6,627	(16,294)	451	(28)	1,580
Cumulative exposure in sector	6,562	13,189	(3,105)	(2,654)	(2,682)	(1,102)

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.

			June 30, 2015			June 30, 2014			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)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	In years		In %	In years		In %	In years
432	9	239	21,473	1.50	0.97	19,441	2.62	0.93	19,856	2.46	0.77
3	-	-	85,727		1.50	56,702		1.59	86,161		1.53
-	-	-	5,811		0.42	6,628		0.42	9,780		0.42
435	9	239	113,011		1.34	82,771		1.34	115,797		1.31
7	-	(199)	37,613	0.57	0.35	32,108	0.27	0.27	35,517	0.61	0.33
3	-	-	70,497		0.89	46,632		1.09	72,236		0.90
-	-	-	5,131		0.44	4,151		0.44	8,591		0.44
10	-	(199)	113,241		0.69	82,891		0.74	116,344		0.69
425	9	438	(230)			(120)			(547)		
(677)	(668)	(230)	(230)								

Management Discussion - Addendum B - Continued

Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	June 30, 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 to 5 years	Over 5 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)	101,916	10,574	16,274	29,423	21,587	11,463
Financial derivative instruments (other than options)	40,298	24,668	56,772	18,045	15,117	12,258
Options (in terms of underlying asset)	2,514	3,490	3,724	373	219	-
Total fair value	144,728	38,732	76,770	47,841	36,923	23,721
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	91,929	15,241	33,603	17,110	16,527	9,379
Financial derivative instruments (other than options)	40,779	25,159	56,369	18,384	15,477	11,959
Options (in terms of underlying asset)	3,142	2,764	3,706	394	219	-
Total fair value	135,850	43,164	93,678	35,888	32,223	21,338
Financial instruments, net						
Total exposure to interest rate fluctuations	8,878	(4,432)	(16,908)	11,953	4,700	2,383
Total cumulative exposure	8,878	4,446	(12,462)	(509)	4,191	6,574

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) Restated. For more information about adoption of the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1. to the financial statements.

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 10.A. 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 10.A. 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. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

				June 30, 2015			June 30, 2014			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]	Total fair value	Internal rate of return	Average effective duration[2]
				In %	In years		In %	In years		In %	In years
3,701	193	712	195,843	2.57	1.50	184,577	2.96	1.52	191,745	2.92	1.38
1,027	-	-	168,185		1.38	122,879		1.45	164,508		1.41
-	-	-	10,320		0.56	10,665		0.54	17,747		0.56
4,728	193	712	374,348		1.42	318,121		1.46	374,000		1.35
2,829	221	(197)	186,642	1.04	1.27	[3]176,649	1.10	1.18	[3]182,928	1.11	1.09
1,023	-	-	169,150		1.18	122,987		1.36	165,641		1.19
-	-	-	10,225		0.64	10,391		0.69	17,505		0.65
3,852	221	(197)	366,017		1.21	310,027		1.23	366,074		1.12
876	(28)	909	8,331			[4]8,094			[4]7,926		
7,450	7,422	8,331	8,331								

Management Discussion - Addendum C
Credit Risk by Economic Sector - Consolidated
As of June 30, 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	Fair value of derivatives
Agriculture, forestry and fishing	608	192	800	-	1
Mining and excavation	412	462	874	-	40
Industry and production	5,137	3,245	8,382	-	106
Construction and real estate - construction[5]	8,839	16,963	25,802	15	3
Construction and real estate - real estate operations	2,116	189	2,305	-	-
Electricity and water delivery	600	287	887	-	391
Commerce	7,831	1,816	9,647	-	100
Hotels, dining and food services	692	204	896	-	3
Transport and storage	987	391	1,378	-	1
Information and communications	1,052	375	1,427	-	17
Financial services	3,358	8,047	11,405	-	767
Other business services	1,867	793	2,660	-	2
Public and community services	910	300	1,210	-	20
Total commercial credit risk	34,409	33,264	67,673	15	1,451
Private individuals - housing loans	100,522	7,810	108,332	-	-
Private individuals - other	15,353	11,088	26,441	-	176
Total	150,284	52,162	202,446	15	1,627
For borrowers' activities overseas	3,404	1,313	4,717	48	28
Total credit risk to public	153,688	53,475	207,163	63	1,655
Banking corporations	6,574	11	6,585	335	2,823
Government	273	41	314	15,331	-
Total credit risk	160,535	53,527	214,062	15,729	4,478

(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) 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.
(5) Includes on-balance sheet credit risk amounting to NIS 1,312 million and off-balance sheet credit risk amounting to NIS 1,533 million, extended to certain purchase groups which are in the process of construction.
(6) 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 regulation is to be applied prospectively as from the 2014 financial statements.

			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[6]	Problematic[4]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	801	790	11	8	1	-	6
12	926	926	-	-	1	-	5
122	8,610	8,499	111	67	18	9	87
4	25,824	25,202	622	256	(8)	(9)	140
-	2,305	2,141	164	156	(23)	5	68
80	1,358	1,356	2	2	-	-	3
34	9,781	9,377	404	261	53	12	156
3	902	879	23	6	7	2	18
6	1,385	1,363	22	5	-	-	8
4	1,448	1,442	6	2	1	-	8
2,468	14,640	14,530	110	105	(10)	(4)	86
2	2,664	2,608	56	35	2	4	31
45	1,275	1,250	25	18	(1)	-	10
2,780	71,919	70,363	1,556	921	41	19	626
-	108,332	107,360	972	3	7	3	627
137	26,754	26,445	196	83	20	23	186
2,917	207,005	204,168	2,724	1,007	68	45	1,439
50	4,843	4,822	21	9	9	-	38
2,967	211,848	208,990	2,745	1,016	77	45	1,477
767	10,510	10,510	-	-	(2)	-	3
-	15,645	15,645	-	-	-	-	-
3,734	238,003	235,145	2,745	1,016	75	45	1,480

Management Discussion - Addendum C - Continued
Credit Risk by Economic Sector - Consolidated
As of June 30, 2014(7)

Reported amounts (NIS in millions)

	Off balance sheet debt(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
Agriculture, forestry and fishing	621	190	811	-	-
Mining and excavation	510	371	881	-	22
Industry and production	5,171	2,820	7,991	3	41
Construction and real estate - construction(6)	8,713	15,874	24,587	22	1
Construction and real estate - real estate operations	2,592	291	2,883	-	3
Electricity and water delivery	779	255	1,034	4	453
Commerce	7,951	1,966	9,917	-	19
Hotels, dining and food services	601	154	755	-	2
Transport and storage	919	306	1,225	-	2
Information and communications	1,112	383	1,495	-	17
Financial services	3,145	7,337	10,482	-	510
Other business services	1,525	762	2,287	-	7
Public and community services	905	351	1,256	-	72
Total commercial credit risk	34,544	31,060	65,604	29	1,149
Private individuals - housing loans	92,557	4,277	96,834	-	-
Private individuals - other	13,819	10,429	24,248	-	206
Total	140,920	45,766	186,686	29	1,355
For borrowers' activities overseas	3,726	1,013	4,739	60	22
Total credit risk to public	144,646	46,779	191,425	89	1,377
Banking corporations	4,792	28	4,820	326	2,090
Government	285	10	295	9,335	-
Total credit risk	149,723	46,817	196,540	9,750	3,467

(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 112 million.
(5) 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.
(6) Includes on-balance sheet credit risk amounting to NIS 1,217 million and off-balance sheet credit risk amounting to NIS 1,114 million, extended to certain purchase groups which are in the process of construction.
(7) 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	Problematic[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	811	13	10	3	(2)	7
12	915	-	-	-	-	5
63	8,098	255	91	9	7	97
1	24,611	378	284	(34)	6	147
-	2,886	403	398	16	1	38
103	1,594	1	1	1	-	3
27	9,963	316	203	25	12	125
1	758	12	5	4	1	13
6	1,233	15	10	1	(1)	7
12	1,524	34	29	1	-	9
372	11,364	190	130	(19)	(13)	100
3	2,297	31	36	7	4	41
38	1,366	25	22	4	1	10
638	67,420	1,673	1,219	18	16	602
-	96,834	1,050	2	7	18	629
3	24,457	196	76	15	23	138
641	188,711	2,919	1,297	40	57	1,369
23	4,844	8	8	(20)	(15)	27
664	193,555	2,927	1,305	20	42	1,396
517	7,753	-	-	(2)	-	8
-	9,630	-	-	-	-	-
1,181	210,938	2,927	1,305	18	42	1,404

Management Discussion - Addendum C - Continued

Credit Risk by Economic Sector - Consolidated

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
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[6]	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 risk	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 credit risk to public	148,912	53,321	202,233	67	2,557
Banking corporations	4,384	9	4,393	342	3,045
Government	307	53	360	13,853	-
Total credit risk	153,603	53,383	206,986	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) 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.
(6) 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.
(7) 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 regulation is to be applied prospectively as from the 2014 financial statements.
(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[7]	Problematic[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	815	802	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	73,556	1,127	866	101	96	604
-	102,179	101,231	948	3	6	22	624
70	25,612	25,291	185	75	93	52	188
2,478	202,473	200,078	2,260	944	200	170	1,416
40	4,902	4,887	15	9	(18)	(15)	29
2,518	207,375	204,965	2,275	953	182	155	1,445
714	8,494	8,494	-	-	(9)	(4)	5
-	14,213	14,213	-	-	-	-	-
3,232	230,082	227,672	2,275	953	173	151	1,450

Management Discussion - Addendum D

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 June 30, 2015
	Balance sheet exposure[2]									Off-balance sheet exposure[2][3]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation 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 debt	Total off-balance sheet exposure	Of which: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	4,528	1,060	1,104	503	503	-	6,692	12	2	2,417	-	5,580	1,112
UK	-	445	382	919	312	607	1,434	4	-	1,229	-	422	405
Other	-	1,084	3,160	-	-	-	4,244	28	-	1,999	-	1,755	2,489
Total exposure to foreign countries	4,528	2,589	4,646	1,422	815	607	12,370	44	2	5,645	-	7,757	4,006
Of which: Total exposure to LDC countries	-	-	520	-	-	-	520	1	-	123	-	172	348
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	5	45	-	-	-	50	-	-	20	-	18	32
													As of June 30, 2014
USA	3,199	688	1,180	308	308	-	5,067	5	-	2,253	-	4,123	944
UK	-	408	599	932	289	643	1,650	9	-	857	-	619	388
France	-	148	1,319	-	-	-	1,467	26	-	452	-	272	1,195
Other	-	776	1,709	-	-	-	2,485	5	-	1,919	-	1,301	1,184
Total exposure to foreign countries	3,199	2,020	4,807	1,240	597	643	10,669	45	-	5,481	-	6,315	3,711
Of which: Total exposure to LDC countries	-	-	494	-	-	-	494	1	-	110	-	142	352
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	33	-	-	-	35	-	-	25	-	6	29

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: - continued

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	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	-	2,595	-	2,293	1,128
UK	-	507	598	943	402	541	1,646	7	-	1,135	-	692	413
France	-	427	1,361	-	-	-	1,788	13	-	499	-	534	1,254
Other	23	1,055	1,929	-	-	-	3,007	6	-	2,452	-	1,751	1,256
Total exposure to foreign countries	1,031	3,227	5,063	1,294	753	541	9,862	32	-	6,681	-	5,270	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	33	-	-	-	37	-	-	22	-	9	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.
(4) Governments, official institutions and central banks.

Management Discussion - Addendum D - continued

Exposure to Foreign Countries - Consolidated [(1)]

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:

	As of June 30, 2015		As of December 31, 2014	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
France	1,473	327	-	-
Germany	608	919	724	1,003

As of June 30, 2014, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

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 three months ended June 30, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	18	-	18
Net change in short-term exposure	-	(1)	-	(1)
Exposure at end of reported period	-	17	-	17

	For the three months ended June 30, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	1	6	-	7
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	1	6	-	7

	For the six months ended June 30, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	11	-	11
Exposure at end of reported period	-	17	-	17

	For the six months ended June 30, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	5	-	5
Net change in short-term exposure	1	1	-	2
Exposure at end of reported period	1	6	-	7

	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	-	1	-	1
Exposure at end of reported period	-	6	-	6

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 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 quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank 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 and to the Bank's internal controls over financial reporting. Furthermore:

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 it 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 presented 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 this 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 and Balance Sheet Committees of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal control 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
Ramat Gan
August 16, 2015

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 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 quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank 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 and to the Bank's internal controls over financial reporting. Furthermore:

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 it 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 presented 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 this 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 and Balance Sheet Committees of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal control 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
Ramat Gan
August 16, 2015

Condensed Financial Statements

Table of Contents

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Ltd.

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of June 30, 2015, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the three-month and six-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.34% of total consolidated assets as of June 30, 2015, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.83% and 6.16% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an associate, the investment in which amounted to NIS 19 million as of June 30, 2015. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

onclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial data has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.
Without qualifying our conclusion, we draw your attention to:

1. Note 7.C.3)a)-c) with regard to lawsuits filed against the Bank, including motions for class action status.
2. Note 7.C.4) with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.

Certified Public Accountants
Tel Aviv, August 16, 2015

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of June 30,		As of December 31,
		2015	2014	2014
		(unaudited)		(audited)
Assets				
Cash and deposits with banks		25,318	27,181	26,798
Securities[1][2]	2	15,833	9,744	14,259
Securities loaned or purchased in repurchase agreements		-	112	107
Loans to the public	3	153,688	144,646	148,912
Provision for credit losses	3	(1,371)	(1,293)	(1,343)
Loans to the public, net		152,317	143,353	147,569
Loans to Governments		273	285	307
Investments in associates		38	61	52
Buildings and equipment		1,545	1,544[4]	1,570[4]
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	8	4,478	3,467	5,602
Other assets		1,875	2,271[4]	2,162[4]
Total assets		201,764	188,105	198,513
Liabilities and Equity				
Deposits from the public	4	153,736	148,063	152,379
Deposits from banks		1,903	1,523	1,258
Deposits from the Government		60	56	55
Securities loaned or sold in conjunction with repurchase agreements		-	-	223
Debentures and subordinated notes		22,648	19,120	20,580
Liabilities with respect to derivative instruments	8	5,350	3,303	6,497
Other liabilities[3]		6,271	5,309[4]	6,217[4]
Total liabilities		189,968	177,374	187,209
Shareholders equity attributable to shareholders of the Bank		11,266	10,237[4]	10,797[4]
Non-controlling interest		530	494[4]	507[4]
Total equity		11,796	10,731	11,304
Total liabilities and equity		201,764	188,105	198,513

(1) Of which: NIS 10,580 million at fair value on consolidated basis (June 30, 2014 - NIS 7,797 million; December 31, 2014 - NIS 8,896 million).
(2) For more information with regard to securities pledged to lenders, see Note 2.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 106 million (on June 30, 2014 - NIS 103 million, on December 31, 2014 - NIS 102 million).
(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.

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, August 16, 2015

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2015	2014	2015	2014	2014
			(unaudited)		(unaudited)	(audited)
Interest revenues	11	1,851	1,639	2,401	2,630	5,347
Interest expenses	11	769	716	620	994	1,972
Interest revenues, net		1,082	923	1,781	1,636	3,375
Expenses with respect to credit losses	3	40	23	75	18	173
Interest revenues, net after expenses with respect to credit losses		1,042	900	1,706	1,618	3,202
Non-interest revenues						
Non-interest financing revenues	12	(45)	(2)	80	79	173
Commissions		365	338	721	686	1,395
Other revenues		10	7	31	16	44
Total non-interest revenues		330	343	832	781	1,612
Operating and other expenses						
Payroll and associated expenses		492	460[(1)]	958	912[(1)]	1,866[(1)]
Maintenance and depreciation of buildings and equipment		174	174[(1)]	348	342[(1)]	715[(1)]
Other expenses		159	108	280	208	458
Total operating and other expenses		825	742	1,586	1,462	3,039
Pre-tax profit		547	501	952	937	1,775
Provision for taxes on profit		204	187[(1)]	351	347[(1)]	657[(1)]
After-tax profit		343	314	601	590	1,118
Share in profit (loss) of associates, after tax		-	2	(1)	3	5
Net profit:						
Before attribution to non-controlling interest		343	316	600	593	1,123
Attributable to non-controlling interest		(13)	(9)	(22)	(17)	(31)
Attributable to shareholders of the Bank		330	307	578	576	1,092

(1) 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.

The accompanying notes are an integral part of the financial statements.

Condensed consolidated statement of profit and loss - Continued

Reported amounts

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2015	2014[2]	2015	2014[2]	2014[2]
		(unaudited)		(unaudited)	(audited)
Earnings per share[1]					
Basic earnings per share (in NIS)					
Net profit attributable to shareholders of the Bank	1.43	1.33	2.50	2.51	4.74
Diluted earnings per share (in NIS)					
Net profit attributable to shareholders of the Bank	1.42	1.32	2.50	2.49	4.71

(1) Share of NIS 0.1 par value.

(2) 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.

The accompanying notes are an integral part of the financial statements.

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2015	2014[1]	2015	2014[1]	2014[1]
		(unaudited)		(unaudited)	(audited)
Net profit:					
Before attribution to non-controlling interest	343	316	600	593	1,123
Attributable to non-controlling interest	(13)	(9)	(22)	(17)	(31)
Net profit attributable to shareholders of the Bank	330	307	578	576	1,092
Other comprehensive income (loss) before taxes					
Adjustments for presentation of available-for-sale securities at fair value, net	(155)	(19)	(92)	(25)	(10)
Adjustments from translation of financial statements of investments in associates[2]	(1)	-	(1)	-	6
Net gain (loss) with respect to cash flow hedging	(11)	1	(26)	9	23
Adjustment of liabilities with respect to employee benefits[3]	58	(10)	(20)	(30)	(46)
Total other comprehensive loss, before tax	(109)	(28)	(139)	(46)	(27)
Related tax effect	41	9	54	16	10
Other comprehensive income (loss) after taxes[4]					
Other comprehensive loss before attribution to non-controlling interest	(68)	(19)	(85)	(30)	(17)
Less other comprehensive loss (income) attributed to non-controlling interest	(2)	2	(1)	1	2
Other comprehensive loss attributable to shareholders of the Bank, after taxes	(70)	(17)	(86)	(29)	(15)
Comprehensive income:					
Before attribution to non-controlling interest	275	297	515	563	1,106
Attributable to non-controlling interest	(15)	(7)	(23)	(16)	(29)
Comprehensive income attributable to shareholders of the Bank	260	290	492	547	1,077

(1) 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.

(2) Foreign currency translation adjustment of overseas operations whose functional currency differs from the Bank's functional currency, including adjustments with respect to 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 14 - Cumulative Other Comprehensive Income.

Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended June 30, 2015 (unaudited)			
	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 March 31, 2015[5]	2,200	67	(76)	2,191
Net profit for the period	-	-	-	-
Dividends paid[6]	-	-	-	-
Benefit from share-based payment transactions	-	4	-	4
Related tax effect	-	6	-	6
Realization of share-based payment transactions [2]	15	(15)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2015	2,215	62	(76)	2,201
	For the three months ended June 30, 2014 (unaudited)			
Balance as of March 31, 2014[5]	2,112	125	(76)	2,161
Net profit for the period[5]	-	-	-	-
Benefit from share-based payment transactions	-	2	-	2
Related tax effect	-	(6)	-	(6)
Realization of share-based payment transactions [2]	10	(10)	-	-
Other comprehensive income (loss), net, after tax[5]	-	-	-	-
Balance as of June 30, 2014[5]	2,122	111	(76)	2,157

(1) Share premium generated prior to March 31, 1986.
(2) In the second quarter of 2015, 651,781 ordinary NIS 0.1 par value shares each were issued (In the second quarter of 2014, 152,387 ordinary NIS 0.1 par value shares each were issued) for exercise of options pursuant to the Employee Stock Option Plan, and issued 41,242 ordinary NIS 0.1 par value shares to the Bank President & CEO.
(3) For details see Note 14 - Cumulative Other Comprehensive Income.
(4) For more information about various limitations on dividend distributions, see Note 13 to the 2014 financial statements.
(5) 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.
(6) 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 was distributed on June 14, 2015.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total shareholders' equity
(88)	8,930	11,033	515	11,548
-	330	330	13	343
-	(37)	(37)	-	(37)
-	-	4	-	4
-	-	6	-	6
-	-	-	-	-
(70)	-	(70)	2	(68)
(158)	9,223	11,266	530	11,796
(69)	7,859	9,951	487	10,438
-	307	307	9	316
-	-	2	-	2
-	-	(6)	-	(6)
-	-	-	-	-
(17)	-	(17)	(2)	(19)
(86)	8,166	10,237	494	10,731

Statement of Changes in Shareholders' Equity - continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2015 (unaudited)			
	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 December 31, 2014[5]	2,197	66	(76)	2,187
Net profit for the period	-	-	-	-
Dividends paid[6]	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	6	-	6
Realization of share-based payment transactions[2]	18	(18)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2015	2,215	62	(76)	2,201

	For the six months ended June 30, 2014 (unaudited)			
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	-	8	-	8
Related tax effect	-	1	-	1
Realization of share-based payment transactions[2]	14	(14)	-	-
Other comprehensive income (loss), net, after tax[5]	-	-	-	-
Balance as of June 30, 2014[5]	2,122	111	(76)	2,157

(1) Share premium generated prior to March 31, 1986.
(2) In the third quarter of 2015, 733,618 ordinary NIS 0.1 par value shares were issued (In the first half of 2014, 337,547 ordinary NIS 0.1 par value shares were issued) for exercise of options pursuant to the Employee Stock Option Plan, and issued 41,242 ordinary NIS 0.1 par value shares to the Bank President & CEO.
(3) For details see Note 14 - Cumulative Other Comprehensive Income.
(4) For more information about various limitations on dividend distributions, see Note 13 to the 2014 financial statements.
(5) 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.
(6) 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 was distributed on June 14, 2015.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total shareholders' equity
(72)	8,682	10,797	507	11,304
-	578	578	22	600
-	(37)	(37)	-	(37)
-	-	8	-	8
-	-	6	-	6
-	-	-	-	-
(86)	-	(86)	1	(85)
(158)	9,223	11,266	530	11,796
(57)	7,590	9,681	478	10,159
-	576	576	17	593
-	-	8	-	8
-	-	1	-	1
-	-	-	-	-
(29)	-	(29)	(1)	(30)
(86)	8,166	10,237	494	10,731

Statement of Changes in Shareholders' Equity - continued

Reported amounts (NIS in millions)

	For the year ended December 31, 2014 (audited)			
	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 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

	For the year ended December 31, 2013 (audited)			
Balance as of December 31, 2012[5]	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 December 31, 2012 after initial application of new rules[5]	2,058	139	(76)	2,121
Net profit for the period[5]	-	-	-	-
Dividends paid	-	-	-	-
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

(1) Share premium generated prior to March 31, 1986.
(2) 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 pursuant to the Employee Stock Option Plan.
(3) For details see Note 14 - Cumulative Other Comprehensive Income.
(4) For more information about various limitations on dividend distributions, see Note 13 to the 2014 financial statements.
(5) 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.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total shareholders' equity
(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
-	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

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2015	2014	2015	2014	2014
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit for the period	343	316[(1)]	600	593[(1)]	1,123[(1)]
Adjustments					
Bank's share of undistributed (earnings) loss of associates	-	(2)	1	(3)	(5)
Depreciation of buildings and equipment	55	60[(1)]	110	114[(1)]	246[(1)]
Expenses with respect to credit losses	40	23	75	18	173
Loss (gain) from sale of securities available for sale	(5)	15	(97)	(17)	(110)
Impairment of securities held for sale	-	-	-	-	2
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	14	(4)	9	(13)	(4)
Gain from sale of buildings and equipment	-	-	(10)	-	(10)
Benefit from share-based payment transactions	4	2	8	8	40
Deferred taxes, net	2	26[(1)]	(77)	33[(1)]	21[(1)]
Severance pay - decrease (increase) in excess of amount funded over liability	-	(1)	74	(11)	(21)
Effect of changes in exchange rate on cash balances	377	105	273	63	(545)
Net change in current assets					
Deposits with banks	309	318	85	1,796	346
Loans to the public	(1,663)	(2,315)	(4,823)	(4,806)	(9,177)
Loans to Governments	26	17	34	20	(2)
Securities loaned or purchased in repurchase agreements	300	185	107	(42)	(37)
Assets with respect to derivative instruments	1,210	(186)	1,098	148	(1,973)
Securities held for trade	(658)	(84)	(273)	388	522
Other assets, net	1,158	(431)[(1)]	389	(34)[(1)]	90[(1)]
Net change in current liabilities					
Deposits from banks	431	(583)	645	(518)	(783)
Deposits from the public	734	2,362	1,357	6,819	11,135
Deposits from the Government	1	(5)	5	(6)	(7)
Securities loaned or sold in conjunction with resale agreements	(240)	-	(223)	-	223
Liabilities with respect to derivative instruments	(1,910)	301	(1,147)	(235)	2,959
Other liabilities	(229)	(211)[(1)]	(9)	(779)[(1)]	123[(1)]
Accrual differences included under investment and financing operations	3	25	(400)	(147)	(181)
Net cash provided by current operations	302	(67)	(2,189)	3,389	4,148

(1) 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.

The accompanying notes are an integral part of the financial statements.

Statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2015	2014	2015	2014	2014
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	-	-	-	(77)	(3,477)
Acquisition of securities available for sale	(3,258)	(4,095)	(8,175)	(5,065)	(12,930)
Proceeds from sale of securities available for sale	1,808	924	6,486	2,015	8,658
Proceeds from redemption of securities available for sale	2	-	366	-	153
Acquisition of buildings and equipment	(60)	(51)(1)	(86)	(110)(1)	(286)(1)
Proceeds from sale of buildings and equipment	11	-	15	2	21
Realization of associates	6	1	12	2	17
Net cash provided by investment operations	(1,491)	(3,221)	(1,382)	(3,233)	(7,844)
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	1,805	1,243	4,955	2,933	5,809
Redemption of debentures and subordinated notes	(30)	(35)	(2,469)	(109)	(1,574)
Dividends paid to shareholders	(37)	-	(37)	-	-
Net cash provided by financing operations	1,738	1,208	2,449	2,824	4,235
Increase (decrease) in cash	549	(2,080)	(1,122)	2,980	539
Cash balance at beginning of year	24,622	28,987	26,189	23,885	25,105
Effect of changes in exchange rate on cash balances	(377)	(105)	(273)	(63)	545
Cash balance at end of period	24,794	26,802	24,794	26,802	26,189
Interest and taxes paid / received					
Interest received	1,901	1,620	2,675	2,633	5,929
Interest paid	547	668	645	829	1,760
Dividends received	4	-	6	-	8
Taxes on income received	1	2	60	77	80
Taxes on income paid	206	178	351	387	800
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	10	16	10	16	10

(1) 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.

Note 1 - Reporting Principles and Accounting Policies

A. General

The condensed financial statements as of June 30, 2015 are prepared in accordance with Israeli GAAP for financial reporting of interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2014.

The Group’s accounting policies in these condensed consolidated quarterly financial statements are consistent with the policies applied to the annual financial statements, except as noted below in section C.

In accordance with directives of the Supervisor of Banks, the condensed financial statements are only issued on a consolidated basis.

The Bank’s Board of Directors authorized publication of these condensed financial statements on August 16, 2015.

B. Restatement and reclassification on the financial statements

1. Information in these financial statements as of June 30, 2014 and December 31, 2014 include restatement of balances and notes, in conformity with the Supervisor of Banks' directives with regard to adoption of US GAAP concerning employee rights. For more information see section C.1. below.

2. Information in these financial statements as of June 30, 2014 and December 31, 2014 include restatement of balances and notes, in conformity with the Supervisor of Banks' directives with regard to capitalization of software costs - for more information see section C.2 below.

3. Data in Addendum C to Management Discussion "Credit Risk by Economic Sector" include reclassification of balances pursuant to the Supervisor of Banks' directive dated April 9, 2014, which stipulated revision of various sector categories to match those of the Central Bureau of Statistics, as from January 1, 2015.

   Consequently, new classifications were also included in Note 3 "Credit risk, loans to the public and provision for credit losses".

   No material changes were made to group-based provision for credit losses due to change in sector classification.

C. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2015 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Adoption of US GAAP with regard to employee rights.
2. Application of the Supervisor of Banks' directives concerning capitalization of software costs (as from April 1, 2015).
3. Reporting in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity
4. Liquidity coverage ratio and relevant disclosure requirements (as from April 1, 2015).
5. Leverage ratio and relevant disclosure requirements (as from April 1, 2015).
6. Revision of economic sector classification in line with those of the Central Bureau of Statistics, see section B.3 above.

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated 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:

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Nonretirement postemployment 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 a banking corporation 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 stipulates 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 terms to maturity, for corporate debentures rated AA or higher in the USA - and yields to maturity, for the same terms 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.
- 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 Regulations (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 year, would be included under Accumulated Other Comprehensive Income and would decrease the loss balance recorded as noted above - down to zero.

Note 1 - Reporting Principles and Accounting Policies - continued

- 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 policy 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 Conduct of Banking Business Regulation no. 299, a cumulative other 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 a 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.
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.

For more information see also Note 9 to the financial statements as of March 31, 2015 (hereinafter: "the **previous quarterly financial statements**"). Note 9 to the previous quarterly financial statements includes extensive disclosure in annual format, as required by the Supervisor of Banks, including information about:

- Description of employee benefits.
- Liability amounts with respect to benefits by benefit type.
- Information about balances and results of defined benefit plans.
- Actuarial assumptions.
- Information about plan assets.
- Information about expected cash flows.

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 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 included in "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" - SOP 98-I.

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.

Note 1 - Reporting Principles and Accounting Policies - continued

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 to these financial statements, 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 June 30, 2014 (unaudited)				As of December 31, 2014 (audited)			
	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions
		Employee rights	Software cost capitalization			Employee rights	Software cost capitalization	
Buildings and equipment	1,544	-	(114)	1,658	1,570	-	(132)	1,702
Other assets	2,271	61	-	2,210	2,162	81	-	2,081
Other liabilities	5,309	163	(30)	5,176	6,217	180	(35)	6,072
Retained earnings	8,166	(9)	(84)	8,259	8,682	3	(97)	8,776
Cumulative Other Comprehensive Income (Loss)	(86)	(88)	-	2	(72)	(96)	-	24
Shareholders equity attributable to shareholders of the Bank	10,237	(97)	(84)	10,418	10,797	(93)	(97)	10,987
Non-controlling interest	494	(5)	-	499	507	(6)	-	513
Total equity	10,731	(102)	(84)	10,917	11,304	(99)	(97)	11,500
Ratio of Tier I capital to risk elements	8.94	-	(0.06)	9.00	9.05	-	(0.07)	9.12
Total ratio of capital to risk elements	12.99	-	(0.06)	13.05	12.97	-	(0.06)	13.03

Profit and loss data:

	(unaudited)				(unaudited)				(audited)			
	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions
		Employee rights	Software cost capitalization			Employee rights	Software cost capitalization			Employee rights	Software cost capitalization	
Profit and loss												
Payroll and associated expenses	912	(7)	1	918	460	(2)	-	462	1,866	(5)	2	1,869
Maintenance and depreciation of buildings and equipment	342	-	(6)	348	174	-	(3)	177	715	-	10	705
Provision for taxes on profit	347	1	1	345	187	-	-	187	657	(13)	(3)	673
Net profit before attribution to non-controlling interest	593	6	4	583	316	2	3	311	1,123	18	(9)	1,114
Net profit attributed to non-controlling interest	(17)	-	-	(17)	(9)	-	-	(9)	(31)	-	-	(31)
Net profit attributable to shareholders of the Bank	576	6	4	566	307	2	3	302	1,092	18	(9)	1,083
Basic earnings per share attributable to shareholders of the Bank	2.51	0.03	0.02	2.46	1.33	0.01	0.01	1.31	4.74	0.08	(0.04)	4.70
Diluted earnings per share attributable to shareholders of the Bank	2.49	0.03	0.02	2.44	1.32	0.01	0.01	1.30	4.71	0.07	(0.04)	4.68

Consolidated comprehensive income data:

	For the six months ended June 30, 2014				For the three months ended June 30, 2014				For the year ended December 31, 2014			
	(unaudited)				(unaudited)				(audited)			
	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions	Amount presented in these financial statements	Effect of retroactive application with respect to		In conformity with previous provisions
		Employee rights	Software cost capitalization			Employee rights	Software cost capitalization			Employee rights	Software cost capitalization	
Other comprehensive income												
Adjustment of liability with respect to employee benefits	(30)	(30)	-	-	(10)	(10)	-	-	(46)	(46)	-	-
Related tax effect	10	10	-	-	2	2	-	-	17	17	-	-
After-tax other comprehensive income (loss) before attribution to non-controlling interest	(30)	(20)	-	(10)	(19)	(8)	-	(11)	(17)	(29)	-	12
Other comprehensive loss (income) attributable to non-controlling interest	1	-	-	1	2	1	-	1	2	1	-	1
Other comprehensive income (loss) attributable to shareholders of the Bank	(29)	(20)	-	(9)	(17)	(7)	-	(10)	(15)	(28)	-	13

Note 1 - Reporting Principles and Accounting Policies – continued

Cash flow data:

	For the six months ended June 30, 2014 (unaudited)				For the three months ended June 30, 2014 (unaudited)				For the year ended 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	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
Statement of cash flows												
Net cash provided by (used in) current operations	3,389	-	(4)	3,393	(67)	-	(2)	(65)	4,148	-	(12)	4,160
Net cash provided by (used in) investment operations	(3,233)	-	4	(3,237)	(3,221)	-	2	(3,223)	(7,844)	-	12	(7,856)

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.

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.

Note 1 - Reporting Principles and Accounting Policies – continued

According to this circular, the Public Reporting Regulations have been amended so 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 specified 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 Regulations with regard to embedded instruments.

Concurrently with publication of the aforementioned circular, the Supervisor of Banks issued a Q&A file which discusses the manner of classification and measurement of debt instruments which contain a contingent conversion component into shares.

The amendment of the Public Reporting Regulations 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 disclosure requirements with regard there to

On September 28, 2014, the Supervisor of Banks issued a new Proper Conduct of Banking Business Regulation no. 221 concerning "Liquidity coverage ratio".

The regulation adopts Basel III recommendations with regard to the liquidity coverage ratio for the Israeli banking system.

Concurrently, on September 28, 2014, the Supervisor issued an amendment to the Public Reporting Regulations, which stipulates disclosure of the liquidity coverage ratio (to be calculated as per Proper Conduct of Banking Business Regulations 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.

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 June 30, 2015 (in terms of simple averages of daily observations) was 84.0%. See Note 5 to the financial statements for additional information.

5. Leverage ratio and disclosure requirements with regard there to

On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business Regulation 218 concerning "Leverage ratio".

The regulation adopts the Basel Committee recommendations and stipulates minimum leverage ratio requirements for banking corporations.

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 Conduct of Bank Businesses 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. For this purpose, exposure with respect to derivatives would be calculated as per Appendix III to Regulation 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 regulations as from April 1, 2015.

The Bank's leverage ratio as of June 30, 2015 is 5.24%. See Note 5 to the financial statements for additional information.

Note 1 - Reporting Principles and Accounting Policies – continued

D. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

1. Supervisory operating segments

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 amends the Public Reporting Directives with regard to required reporting of supervisory operating segments and modifies 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 June 29, 2015, the Supervisor of Banks issued a revised draft Q&A file, which includes certain relief with regard to client classification by operating segments based on their revenues - when this data is not typical or is unavailable to the Bank.

The Bank is reviewing the implications of adopting this amendment on its financial statements and is preparing to apply it.

Note 1 - Reporting Principles and Accounting Policies – continued

2. 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.

Banks are required to apply the amendments to the Public Reporting Directives in conformity with the circular, as from January 1, 2017. In conformity with transitional provisions in the circular, 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 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.

On July 22, 2015, notice was given that application of the standard in the USA would be postponed by one year, so the new date for application in the USA is for annual reporting periods starting on January 1, 2018. The Supervisor of Banks has yet to comment on the aforementioned notice.

The Bank is reviewing the effect of this standard on its financial statements.

3. Updated structure 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: 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 Note 4 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 included in the Risk chapter of the financial statements. The circular also significantly revises the outline of disclosures in the Board of Directors' report and in Management Discussion and stipulates requirements for expanded online reporting with regard to risks and improved readability of the financial statements. The provisions of this circular are to applied as from the 2015 public report.

Application of the provisions of this circular is not expected to materially impact the Bank's financial statements, other than the change in presentation and disclosure.

Note 1 - Reporting Principles and Accounting Policies – continued

4. 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".

The new provisions cover a variety of topics, including 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.

5. Reporting by Israeli banking corporations in conformity with US GAAP with regard to intangible assets

On July 13, 2015, the Supervisor of Banks issued draft amendments to Public Reporting Regulations concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to intangible assets.

According to this draft, 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 draft 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. The Bank is currently reviewing the effect of adopting these amendments on its financial statements.

6. Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes

On July 14, 2015, the Supervisor of Banks issued draft amendments to Public Reporting Regulations concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to income taxes.

According to this draft, 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".

The provisions listed in the draft 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 currently reviewing the effect of adopting these amendments on its financial statements.

Note 2 - Securities
As of June 30, 2015 (unaudited)
Reported amounts (NIS in millions)

A. Composition:

	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) Government of Israel debentures held to maturity[7]	5,151	5,151	102	-	5,253

	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]	8,100	8,176	21	(97)	8,100
Of foreign governments [6][2]	1,436	1,443	-	(7)	1,436
Of banks and financial institutions in Israel	124	122	2	-	124
Of banks and financial institutions overseas	211	211	-	-	211
Of others overseas	63	63	-	-	63
Total debentures available for sale	9,934	10,015	23	(104)	9,934
Shares[3]	104	106	-	(2)	104
Total securities available for sale	10,038	10,121	23[4]	(106)[4]	10,038

	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	644	650	-	(6)	644
Total securities held for trade	644	650	-	(6)[4]	644
Total securities	15,833	15,922	125	(112)	15,935

(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 903 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 statement of profit and loss but not yet realized.
(6) Primarily US government debentures.
(7) According to Bank Yahav's decision, in order to comply with the required outline concerning the leverage ratio (see Note 5 below), the bank would realize the debentures held to maturity.

Remarks:
(1) For details of operating results of investments in debentures - see Notes 11.D., 12.A.2. and 12.B.; for details of operating results of investment in shares – see Note 12.A.4.
(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 Addendum D to Management Discussion with regard to exposure to foreign countries.

Note 2 - Securities – Continued
As of June 30, 2014 (unaudited)
Reported amounts (NIS in millions)

A. Composition:

	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) Government of Israel debentures held to maturity	1,845	1,845	44	-	1,889

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [1]
			Gain	Losses	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel [2]	5,980	5,981	39	(40)	5,980
Of foreign governments [6][2]	221	221	-	-	221
Of banks and financial institutions in Israel	123	123	-	-	123
Of banks and financial institutions overseas	203	203	-	-	203
Of others in Israel	4	4	-	-	4
Of others overseas	85	84	1	-	85
Total debentures available for sale	6,616	6,616	40	(40)	6,616
Shares[3]	106	105	1	-	106
Total securities available for sale	6,722	6,721	41[4]	(40)[4]	6,722

	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]	1,177	1,177	2	(2)	1,177
Total securities held for trade	1,177	1,177	2[5]	(2)[5]	1,177
Total securities	9,744	9,743	87	(42)	9,788

(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 805 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 statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 513 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 details of operating results of investments in debentures - see Notes 11.D., 12.A.2. and 12.B.; for details of operating results of investment in shares – see Note 12.A.4.

(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 Addendum D to Management Discussion with regard to exposure to foreign countries.

Note 2 - Securities – Continued
As of December 31, 2014 (audited)

Reported amounts (NIS in millions)

A. Composition:

	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) Government of Israel 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 [6][2]	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 statement of profit and loss but not yet realized.
(6) Primarily 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 details of operating results of investments in debentures - see Notes 11.D., 12.A.2. and 12.B.; for details of operating results of investment in shares – see Note 12.A.4.
(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 Addendum D to Management Discussion with regard to exposure to foreign countries.

Note 2 - Securities – Continued

Reported amounts (NIS in millions)

B. Additional details of the fair value and the duration in which available-for-sale securities include unrealized loss positions:

	As of June 30, 2015 (unaudited)							
	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
Securities available for sale								
Debentures -								
Of Government of Israel	5,655	83	-	83	120	6		6
Total debentures available for sale	5,655	83	-	83	120	6	-	6
Shares	2	-	2	2	-	-	-	-
Total securities available for sale	5,657	83	2	85	120	6	-	6

	As of June 30, 2014 (unaudited)							
	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
Securities available for sale								
Debentures and bonds -								
Of Government of Israel	3,216	20	-	20	200	20	-	20
Total debentures available for sale	3,216	20	-	20	200	20	-	20
Shares	-	-	-	-	-	-	-	-
Total securities available for sale	3,216	20	-	20	200	20	-	20

	As of December 31, 2014 (audited)							
	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
Securities available for sale								
Debentures -								
Of Government of Israel	2,980	16	-	16	466	6	-	6
Total debentures available for sale	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.

C. Asset-backed securities -

As of June 30, 2015, June 30, 2014 and December 31, 2014, there was no balance of asset-backed securities.

Note 3 - 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

	For the three months ended June 30, 2015					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	657	620	183	1,460	6	1,466
Expenses with respect to credit losses	18	11	14	43	(3)	40
Accounting write-offs	(45)	(3)	(30)	(78)	-	(78)
Recovery of debt written off for accounting purposes in previous years	33	-	19	52	-	52
Net accounting write-offs	(12)	(3)	(11)	(26)	-	(26)
Balance of provision for credit losses at end of period	663	628	186	1,477	3	1,480
Of which: With respect to off balance sheet credit instruments	97	-	9	106	-	106

	For the three months ended June 30, 2014[2]					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	614	635	146	1,395	12	1,407
Expenses with respect to credit losses	13	7	7	27	(4)	23
Accounting write-offs	(28)	(13)	(32)	(73)	-	(73)
Recovery of debt written off for accounting purposes in previous years	29	-	18	47	-	47
Net accounting write-offs	1	(13)	(14)	(26)	-	(26)
Balance of provision for credit losses at end of period	628	629	139	1,396	8	1,404
Of which: With respect to off balance sheet credit instruments	91	-	12	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) Reclassified.

Note 3 - 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

	For the six months ended June 30, 2015					
	Provision for credit losses					
	Loans to the public				Banks	
	Commercial	Housing	Individual - other	Total	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	50	7	20	77	(2)	75
Accounting write-offs	(73)	(3)	(58)	(134)	-	(134)
Recovery of debt written off for accounting purposes in previous years	54	-	35	89	-	89
Net accounting write-offs	(19)	(3)	(23)	(45)	-	(45)
Balance of provision for credit losses at end of period	663	628	186	1,477	3	1,480
Of which: With respect to off balance sheet credit instruments	97	-	9	106	-	106

	For the six months ended June 30, 2014[(2)]					
	Provision for credit losses					
	Loans to the public				Banks	
	Commercial	Housing	Individual - other	Total	and governments	Total
Balance of provision for credit losses at year start	626	640	152	1,418	10	1,428
Expenses with respect to credit losses	-	7	13	20	(2)	18
Accounting write-offs	(67)	(18)	(64)	(149)	-	(149)
Recovery of debt written off for accounting purposes in previous years	69	-	38	107	-	107
Net accounting write-offs	2	(18)	(26)	(42)	-	(42)
Balance of provision for credit losses at end of period	628	629	139	1,396	8	1,404
Of which: With respect to off balance sheet credit instruments	91	-	12	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) Reclassified.

Note 3 - 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

						June 30, 2015
			Loans to the public		Banks	
	Commercial	Housing	Individual - other	Total	and governments	Total
Recorded debt balance of debt [1]						
reviewed on individual basis	28,817	3	716	29,536	6,847	36,383
reviewed on individual basis	8,335	100,833	14,984	124,152	-	124,152
Total debts	37,152	100,836[2]	15,700	153,688	6,847	160,535
Loans for which a provision is calculated by extent of arrears	1,086	100,180	-	101,266	-	101,266
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	467	-	23	490	3	493
reviewed on individual basis	99	628	154	881	-	881
Total provision for credit losses	566	628	177	1,371	3	1,374
Of which: Provision by extent of arrears	1	280	-	281	-	281

						June 30, 2014[3]
Recorded debt balance of debt [1]						
reviewed on individual basis	29,897	2	738	30,637	5,077	35,714
reviewed on individual basis	7,714	92,703	13,592	114,009	-	114,009
Total debts	37,611	92,705[2]	14,330	144,646	5,077	149,723
Loans for which a provision is calculated by extent of arrears	1,229	92,062	-	93,291	-	93,291
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	468	2	25	495	8	503
reviewed on individual basis	69	627	102	798	-	798
Total provision for credit losses	537	629	127	1,293	8	1,301
Of which: Provision by extent of arrears	1	305	-	306	-	306

						December 31, 2014[3]
Recorded debt balance of debt [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
Total debts	37,643	96,242[2]	15,027	148,912	4,691	153,603
Loans for which a provision is calculated by extent of arrears	1,195	95,513	-	96,708	-	96,708
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
Total provision for credit losses	540	624	179	1,343	5	1,348
Of which: Provision by extent of arrears	1	290	-	291	-	291

(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 5,349 million (as of June 30, 2014 - NIS 5,192 million and as of December 31, 2014 - NIS 5,313 million).
(3) Reclassified.

Note 3 - 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

	As of June 30, 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	8,688	47	104	8,839	9	7
Construction and real estate - real estate operations	1,952	8	156	2,116	-	9
Financial services	3,248	5	105	3,358	2	43
Commercial – other	19,459	253	384	20,096	22	60
Total commercial	33,347	313	749	34,409	33	119
Private individuals - housing loans	99,550	969[7]	3	100,522	969[7]	277[6]
Private individuals - other	15,166	105	82	15,353	19	58
Total public – activity in Israel	148,063	1,387	834	150,284	1,021	454
Banks in Israel	870	-	-	870	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	148,934	1,387	834	151,155	1,021	454
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,232	-	5	1,237	-	-
Commercial – other	1,495	7	4	1,506	6	36
Total commercial	2,727	7	9	2,743	6	36
Private individuals	656	5	-	661	1	4
Total public – activity overseas	3,383	12	9	3,404	7	40
Overseas banks	5,704	-	-	5,704	-	-
Overseas governments	272	-	-	272	-	-
Total activity overseas	9,359	12	9	9,380	7	40
Total public	151,446	1,399	843	153,688	1,028	494
Total banks	6,574	-	-	6,574	-	-
Total governments	273	-	-	273	-	-
Total	158,293	1,399	843	160,535	1,028	494

(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 problematic debt restructuring, see Note 3.B.2.c. below.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 18 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 199 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.

Note 3 - 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

As of June 30, 2014[9]						
		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]	8,557	35	121	8,713	10	4
Construction and real estate - real estate operations	2,239	5	348[8]	2,592	-	2
Financial services	2,955	60	130	3,145	2	31
Commercial – other	19,472	232	390	20,094	25	54
Total commercial	33,223	332	989	34,544	37	91
Private individuals - housing loans[8]	91,507	1,048[7]	2	92,557	1,048[7]	312[6]
Private individuals - other	13,631	113	75	13,819	18	65
Total public – activity in Israel	138,361	1,493	1,066	140,920	1,103	468
Banks in Israel	445	-	-	445	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	138,807	1,493	1,066	141,366	1,103	468
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,498	-	5	1,503	-	-
Commercial – other	1,562	-	2	1,564	-	61
Total commercial	3,060	-	7	3,067	-	61
Private individuals	658	-	1	659	-	-
Total public – activity overseas	3,718	-	8	3,726	-	61
Overseas banks[8]	4,347	-	-	4,347	-	-
Overseas governments[8]	284	-	-	284	-	-
Total activity overseas	8,349	-	8	8,357	-	-
Total public	142,079	1,493	1,074	144,646	1,103	529
Total banks	4,792	-	-	4,792	-	-
Total governments	285	-	-	285	-	-
Total	147,156	1,493	1,074	149,723	1,103	529

(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 problematic debt restructuring, see Note 3.B.2.c. below.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 39 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 233 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) Reclassified.
(9) 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 3 - 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

						As of December 31, 2014[9]
		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]	8,939	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[8]	94,958	945[7]	3	95,906	945[7]	305[6]
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 problematic debt restructuring, see Note 3.B.2.c. below.
(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) Reclassified.
(9) 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 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debt 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. 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, 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.

Credit risk attributes, including specific risk for housing loans, are included on the Board of Directors' Report under Risk management, Basel II: Pillar 3.

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						June 30, 2015
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debt in good standing	36,074	99,864	15,508	273	6,574	158,293
Problematic non-impaired debt(1)	320	969	110	-	-	1,399
Impaired debt	758	3	82	-	-	843
Total	37,152	100,836	15,700	273	6,574	160,535
						June 30, 2014
Debt in good standing(2)	36,283	91,655	14,141	285	4,792	147,156
Problematic non-impaired debt(1)(2)	332	1,048	113	-	-	1,493
Impaired debt	996	2	76	-	-	1,074
Total	37,611	92,705	14,330	285	4,792	149,723
						December 31, 2014
Debt in good standing(2)	36,716	95,294	14,849	307	4,384	151,550
Problematic non-impaired debt(1)(2)	222	945	105	-	-	1,272
Impaired debt	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.

(2) Reclassified.

Note 3 - 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 debts

A. Impaired debt and individual provision

					June 30, 2015
	Balance of impaired debts for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debts 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	75	11	29	104	272
Construction and real estate - real estate operations	155	18	1	156	246
Financial services	12	7	93	105	121
Commercial – other	290	81	94	384	505
Total commercial	532	117	217	749	1,144
Private individuals - housing loans	3	-	-	3	3
Private individuals - other	22	9	60	82	90
Total public – activity in Israel	557	126	277	834	1,237
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	557	126	277	834	1,237
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	566	126	277	843	1,252
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	566	126	277	843	1,252
Of which:					
Measured at present value of cash flows	386	108	177	563	
Debts under problematic debt restructuring	231	26	80	311	

(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 3 - 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 debts

A. Impaired debts and individual provision - continued

					June 30, 2014
	Balance of impaired debts for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debts 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[4]	98	9	23	121	359
Construction and real estate - real estate operations[4]	342	17	6	348	370
Financial services	118	7	12	130	157
Commercial – other	192	70	198	390	574
Total commercial	750	103	239	989	1,460
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	20	10	55	75	87
Total public – activity in Israel	772	115	294	1,066	1,549
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	772	115	294	1,066	1,549
Borrower activity overseas					
Public - commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	2	-	-	2	6
Total commercial	7	-	-	7	12
Private individuals	1	-	-	1	3
Total public – activity overseas	8	-	-	8	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	8	-	-	8	15
Total public	780	115	294	1,074	1,564
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	780	115	294	1,074	1,564
Of which:					
Measured at present value of cash flows	407	98	221	628	
Debts under problematic debt restructuring	471	36	103	574	

(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.
(4) Reclassified.

Note 3 - 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 debts

A. Impaired debts and individual provision - continued

					December 31, 2014
	Balance of impaired debts for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debts 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 3 - 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 debts

B. Average balance and interest revenues

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	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	101	1	1	152[5]	1	1
Construction and real estate - real estate operations	191	-	-	362[5]	5	5
Financial services	104	-	-	132	1	1
Commercial – other	336	2	2	351	3	3
Total commercial	732	3	3	997	10	10
Private individuals - housing loans	3	-	-	2	-	-
Private individuals - other	83	1	1	78	1	1
Total public – activity in Israel	818	4	4	1,077	11	11
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	818	4	4	1,077	11	11
Borrower activity overseas						
Public - commercial						
Construction and real estate	5	-	-	18	-	-
Commercial – other	4	-	-	2	-	-
Total commercial	9	-	-	20	-	-
Private individuals	-	-	-	1	-	-
Total public – activity overseas	9	-	-	21	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	9	-	-	21	-	-
Total public	827	4	4	1,098	11	11
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[4]	827	4	4	1,098	11	11

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 18 million (as of June 30, 2014 - NIS 24 million).
(5) Reclassified.

Note 3 - 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 debts

B. Average balance and interest revenues - Continued

	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	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	97	1	1	182[(5)]	14	13
Construction and real estate - real estate operations	217	-	-	356[(5)]	5	5
Financial services	89	-	-	148	1	1
Commercial – other	321	2	2	370	5	5
Total commercial	724	3	3	1,056	25	24
Private individuals - housing loans	3	-	-	2	-	-
Private individuals - other	79	1	1	79	2	2
Total public – activity in Israel	806	4	4	1,137	27	26
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	806	4	4	1,137	27	26
Borrower activity overseas						
Public - commercial						
Construction and real estate	5	-	-	19	-	-
Commercial – other	4	-	-	2	-	-
Total commercial	9	-	-	21	-	-
Private individuals	-	-	-	1	-	-
Total public – activity overseas	9	-	-	22	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	9	-	-	22	-	-
Total public	815	4	4	1,159	27	26
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[(4)]	815	4	4	1,159	27	26

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 37 million (as of June 30, 2014 - NIS 53 million).
(5) Reclassified.

Note 3 - 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 debts

C. Problematic debt under restructuring

					June 30, 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	35	-	-	-	35
Construction and real estate - real estate operations	154	-	1	-	155
Financial services	4	-	-	1	5
Commercial – other	41	-	-	14	55
Total commercial	234	-	1	15	250
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	26	-	1	29	56
Total public – activity in Israel	260	-	2	44	306
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	260	-	2	44	306
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	1	5
Commercial – other	-	-	-	-	-
Total commercial	4	-	-	1	5
Private individuals	-	-	-	-	-
Total public – activity overseas	4	-	-	1	5
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	1	5
Total public	264	-	2	45	311
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	264	-	2	45	311

(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.

Note 3 - 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 debts

C. Problematic debt under restructuring

					June 30, 2014
					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	39[4]	-	-	30	69
Construction and real estate - real estate operations	342[4]	-	-	1	343
Financial services	6	-	-	2	8
Commercial – other	71	-	-	17	88
Total commercial	458	-	-	50	508
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	25	-	1	34	60
Total public – activity in Israel	483	-	1	84	568
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	483	-	1	84	568
Borrower activity overseas					
Public - commercial					
Construction and real estate	3	-	-	2	5
Commercial – other	-	-	-	-	-
Total commercial	3	-	-	2	5
Private individuals	1	-	-	-	1
Total public – activity overseas	4	-	-	2	6
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	2	6
Total public	487	-	1	86	574
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	487	-	1	86	574

(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.

Note 3 - 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 debts

C. Problematic debts under restructuring - continued

	December 31, 2014				
	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.

As of June 30, 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 3 - 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 debts

C. Problematic debts under restructuring - continued

	Restructurings made [2]					
	Three months ended June 30, 2015			Three months ended June 30, 2014		
	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	5	1	1	3	1	1
Construction and real estate - real estate operations	-	-	-	4	-	-
Financial services	2	-	-	-	-	-
Commercial – other	32	4	2	25	14	14
Total commercial	39	5	3	32	15	15
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	249	10	9	218	8	8
Total public – activity in Israel	288	15	12	250	23	23
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	288	15	12	250	23	23
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	288	15	12	250	23	23
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	288	15	12	250	23	23

(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 3 - 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 debts

C. Problematic debts under restructuring - continued

	Restructurings made [2]					
	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	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	7	1	1	4	1	1
Construction and real estate - real estate operations	-	-	-	4	-	-
Financial services	3	-	-	3	1	1
Commercial – other	60	7	5	51	35	35
Total commercial	70	8	6	62	37	37
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	470	18	17	435	18	17
Total public – activity in Israel	540	26	23	497	55	54
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	540	26	23	497	55	54
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	540	26	23	497	55	54
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	540	26	23	497	55	54

(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 3 - 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 debts

C. Problematic debts under restructuring - continued

	Restructurings made which are in default[2]			
	Three months ended June 30, 2015		Three months ended June 30, 2014	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	-	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	5	1	4	-
Total commercial	5	1	4	-
Private individuals - housing loans	-	-	-	-
Private individuals - other	25	-	26	-
Total public – activity in Israel	30	1	30	-
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	30	1	30	-
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	30	1	30	-
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	30	1	30	-

(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 3 - 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 debts</Bold

C. Problematic debts under restructuring - continued

	Restructurings made which are in default[2]			
	For the six months ended June 30, 2015		**For the six months ended June 30, 2014**	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	1	-	1	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	19	1	12	1
Total commercial	20	1	13	1
Private individuals - housing loans	-	-	-	-
Private individuals - other	76	1	69	1
Total public – activity in Israel	96	2	82	2
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	96	2	82	2
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	96	2	82	2
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	96	2	82	2

(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 3 - 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:

					June 30, 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%	57,927	1,967	40,042	5,018
	Over 60%	43,896	562	31,512	2,817
Junior lien or no lien		99	3	77	1,899
Total		101,922	2,532	71,631	9,734

					June 30, 2014
				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%	51,447	1,529	38,438	2,937
	Over 60%	42,390	505	32,674	1,377
Junior lien or no lien		97	2	79	1,531
Total		93,934	2,036	71,191	5,845

	December 31, 2014				
	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%	54,449	1,806	39,611	4,411
	Over 60%	42,981	595	32,461	2,175
Junior lien or no lien		94	3	79	1,651
Total		97,524	2,404	72,151	8,237

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

C. Purchase and sale of debts

	Three months ended June 30, 2015				Three months ended June 30, 2014			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	-	-	-	-	-	-
Loans sold	43	-	-	43	-	-	-	-

	For the six months ended June 30, 2015				For the six months ended June 30, 2014			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	123	123	-	-	-	-
Loans sold	178	-	-	178	-	-	-	-

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

		June 30,	December 31,
	2015	2014	2014
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	31,648	16,781	22,540
Interest-bearing	5,821	5,467	5,933
Total on-call	37,469	22,248	28,473
Term deposits	112,322	122,268	119,751
Total deposits in Israel[(1)]	149,791	144,516	148,224
Outside of Israel			
On-call			
Non interest-bearing	762	620	682
Interest-bearing	8	8	6
Total on-call	770	628	688
Term deposits	3,175	2,919	3,467
Total deposits overseas	3,945	3,547	4,155
Total deposits from the public	153,736	148,063	152,379
(1) Includes:			
Deposits from individuals	73,535	68,139	70,707
Deposits from institutional investors	37,771	44,113	44,010
Deposits from corporations and others	38,485	32,264	33,507

B. Deposits from the public by size on consolidated basis

		June 30,	December 31,
	2015	2014	2014
		(unaudited)	(audited)
Maximum deposit			
Up to 1	52,359	49,146	50,887
1 to 10	32,633	29,974	31,119
Over 10 to 100	17,128	14,550	15,522
Over 100 to 500	14,954	14,513	15,511
Above 500	36,662	39,880	39,340
Total	153,736	148,063	152,379

Note 5 – 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 June 30,		As of December 31,
	2015	2014	2014
	(unaudited)	(unaudited)	(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier 1 capital	11,703	(2)(1)10,700	(2)(1)11,273
Tier 1 capital	11,703	10,700	11,273
Tier 2 capital	4,473	4,855	4,883
Total capital	16,176	15,555	16,156
B. Weighted risk asset balances			
Credit risk	117,255	(2)(1)111,714	(2)(1)116,159
Market risk	1,123	919	1,020
Operating risk	7,443	7,095	7,383
Total weighted risk asset balances	125,821	119,728	124,562
			In %
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk elements			
Ratio of Tier I capital to risk elements	9.30	(2)(1)8.94	(2)(1)9.05
Ratio of total capital to risk elements	9.30	(2)(1)8.94	(2)(1)9.05
Minimum Tier I capital ratio required by Supervisorof Banks(3)	12.86	(2)(1)12.99	(2)(1)12.97
Total minimum capital ratio required by the Supervisor of Banks(3)	9.10	9.00	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I capital to risk elements	9.83	(2)9.92	(2)9.55
Ratio of Tier I capital to risk elements	9.83	(2)9.92	(2)9.55
Ratio of total capital to risk elements	13.43	(2)14.05	(2)13.65
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	13.00	12.50	13.00
3. Effect of transitional provisions on Tier 1 capital ratio (for details see section H. below):			
Ratio of capital to risk elements			
Ratio of Tier I equity to risk elements before application of transitional provisions	(4)9.13	(4)(1)8.74	(4)(1)8.84
Effect of transitional provisions	(4)0.17	(4)(1)0.20	(4)(1)0.21
Ratio of Tier I equity to risk elements after application of transitional provisions	9.30	(2)(1))8.94	(2)(1)9.05

(1) Restated. For information about retroactive application of the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.C.2.

(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.

(3) 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 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 current reporting date, are 9.8% and 13.3%, respectively.

(4) Including the effect of adoption of US GAAP with regard to employee rights. Comparative figures were restated to reflect this effect.

Note 5 – 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"

	For the three months ended June 30, 2015
	(unaudited)
	In %
A. Consolidated data[1]	
Liquidity coverage ratio	84
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	60
B. Bank data	
Liquidity coverage ratio	83
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	60
C. Significant subsidiaries	
Bank Yahav for Government Employees Ltd. and subsidiaries thereof	
Liquidity coverage ratio	472
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.
(2) The minimum liquidity coverage ratio required by the Supervisor of Banks would gradually increase to 100% as of January 1, 2017.

Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

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 June 30, 2015
	(unaudited)
	NIS in millions
A. Consolidated data	
Tier 1 capital	11,703
Total exposure	223,347
	In %
Leverage ratio	5.24
Minimum leverage ratio required by the Supervisor of Banks[1]	5.00
B. Significant subsidiaries	
Bank Yahav for Government Employees Ltd. and subsidiaries thereof	
Leverage ratio[2]	4.78
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.

(2) According to the outline specified by the Bank of Israel, Bank Yahav should achieve a leverage ratio of 4.80% on June 30, 2015. In co-ordination with the Supervisor of Banks, Bank Yahav will comply with this outline by end of August 2015. See also Note 2 with regard to Bank Yahav's decision to realize debentures held to maturity for this purpose.

Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

B. 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.

C. 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%.

D. 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 then 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.

E. On July 23, 2012, the Bank Board of Directors instructed Bank management to advance 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.

F. 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 ratio up to 45%	– risk weighting of 35%
For loans with LTV ratio over 45% and up to 60%	– risk weighting of 50%
For loans with LTV ratio over 60%	– risk weighting of 75%
For loans with LTV ratio up to 75%	– risk weighting of 35%
For loans with LTV ratio over 75%	– risk weighting of 75%
For leveraged loans with LTV ratio over 60% with A variable interest component of 25% or higher	– risk weighting of 100%

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.

Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

G. 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.

H. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directives 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: "the regulations").
The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustments (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.

- **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.

Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

- **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 derivative instruments 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**

  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 losses 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 Directive 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.

I. 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.

Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

After checking with the Supervisor of Banks, the Bank 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.

J. 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.

K. On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business 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 capital 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%.

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.**

L. 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.

Note 5 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

M. On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business 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 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.

Note 6 - Assets and Liabilities by Linkage Basis

As of June 30, 2015 (unaudited)

Reported amounts (NIS in millions)

	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	19,021	127	5,620	263	287	-	25,318
Securities	11,905	71	2,880	802	71	104	15,833
Loans to the public, net[3]	89,041	51,978	7,718	1,908	1,672	-	152,317
Loans to Governments	-	-	145	128	-	-	273
Investments in associates	35	-	-	-	-	3	38
Buildings and equipment	-	-	-	-	-	1,545	1,545
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	3,340	469	428	165	76	-	4,478
Other assets	1,445	252	44	1	12	121	1,875
Total assets	124,787	52,897	16,835	3,267	2,118	1,860	201,764
Liabilities							
Deposits from the public	98,771	18,687	27,599	5,960	2,719	-	153,736
Deposits from banks	491	309	845	119	139	-	1,903
Deposits from the Government	19	12	29	-	-	-	60
Debentures and subordinated notes	3,844	18,804	-	-	-	-	22,648
Liabilities with respect to derivative instruments	3,944	239	759	309	99	-	5,350
Other liabilities	5,046	745	108	21	138	213	6,271
Total liabilities	112,115	38,796	29,340	6,409	3,095	213	189,968
Difference	12,672	14,101	(12,505)	(3,142)	(977)	1,647	11,796
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,734	(3,734)	-	-	-	-	-
Non-hedging financial derivative instruments:							
Derivative instruments (other than options)	(10,509)	(5,323)	12,282	2,775	775	-	-
Net in-the-money options (in terms of underlying asset)	(502)	-	232	238	31	1	-
Net out-of-the-money options (in terms of underlying asset)	(172)	-	41	104	31	(4)	-
Total	5,223	5,044	50	(25)	(140)	1,644	11,796
Net in-the-money options (capitalized par value)	602	-	(292)	(218)	(92)	-	-
Net out-of-the-money options (capitalized par value)	339	-	(206)	(298)	165	-	-

(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 6 - Assets and Liabilities by Linkage Basis - Continued

As of June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	22,420	148	4,069	253	291	-	27,181
Securities	6,058	557	1,892	1,126	5	106	9,744
Securities loaned or acquired in conjunction with repurchase agreements	11	101	-	-	-	-	112
Loans to the public, net[3]	78,726	53,073	7,831	2,095	1,628	-	143,353
Loans to Governments	-	-	118	167	-	-	285
Investments in investees	34	-	-	-	-	27	61
Buildings and equipment	-	-	-	-	-	1,544[4]	1,544
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	2,650	576	154	53	34	-	3,467
Other assets[4]	1,840	348	26	1	14	42	2,271
Total assets	111,739	54,803	14,090	3,695	1,972	1,806	188,105
Liabilities							
Deposits from the public	95,761	21,060	24,025	4,742	2,475	-	148,063
Deposits from banks	414	384	571	72	82	-	1,523
Deposits from the Government	9	19	28	-	-	-	56
Debentures and subordinated notes	3,443	15,677	-	-	-	-	19,120
Liabilities with respect to derivative instruments	2,339	269	384	289	22	-	3,303
Other liabilities[4]	4,080	878	33	11	27	280	5,309
Total liabilities	106,046	38,287	25,041	5,114	2,606	280	177,374
Difference	5,693	16,516	(10,951)	(1,419)	(634)	1,526	10,731
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,578	(3,578)	-	-	-	-	-
Non-hedging financial derivative instruments:							
Derivative instruments (other than options)	(5,731)	(4,438)	8,792	825	552	-	-
Net in-the-money options (in terms of underlying asset)	(2,207)	-	1,680	560	(34)	1	-
Net out-of-the-money options (in terms of underlying asset)	(472)	-	496	(50)	29	(3)	-
Total	861	8,500	17	(84)	(87)	1,524	10,731
Net in-the-money options (capitalized par value)	1,080	-	(232)	(732)	(116)	-	-
Net out-of-the-money options (capitalized par value)	(229)	-	168	(180)	241	-	-

(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.

Note 6 - Assets and Liabilities by Linkage Basis

As of December 31, 2014 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
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 repurchase 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	-	-	-	-	-	1,570[4]	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]	1,703	366	31	1	20	41	2,162
Total assets	119,979	54,600	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]	4,434	1,296	187	12	44	244	6,217
Total liabilities	109,072	39,095	30,555	5,455	2,788	244	187,209
Difference	10,907	15,505	(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 financial 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	1,796	8,247	(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.

Note 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

		As of June 30,			As of December 31,	
		2015		2014		2014
			Unaudited			audited
	Balance[(1)]	Provision for credit losses[(2)]	Balance[(1)]	Provision for credit losses[(2)]	Balance[(1)]	Provision for credit losses[(2)]
A. Off-balance sheet financial instruments						
Contractual balances or their denominated amounts at the end of the year						
Transactions in which the balance represents a credit risk:						
- Documentary credit	319	2	179	2	345	2
- Loan guarantees	2,198	28	2,255	27	2,173	28
- Guarantees to home buyers	11,469	7	9,834	7	10,450	6
- Guarantees and other liabilities[(3)]	4,364	18	3,387	14	4,007	14
- Unutilized revolving credit card facilities	7,832	5	7,290	5	7,478	6
- Unutilized debitory account and other credit facilities in accountsavailable on demand	18,797	28	17,261	29	19,773	29
- Irrevocable commitments for loans approvedbut not yet granted	12,498	14	9,201	14	11,807	12
- Commitments to issue guarantees	6,082	4	6,687	5	7,040	5

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Balance of provision for credit losses at end of period.

(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 144 million. (as of June 30, 2014 and December 31, 2014 - NIS 128 million and NIS 177 million, respectively). For additional details, see Note 19.D.2 and Note 15.B. to Financial Statements as of December 31, 2014.

		As of June 30,	As of December 31,
	2015	2014	2014
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	615	602	659
Computerization and software service contracts	126	189	200
Acquisition and renovation of buildings	10	15	6
Receipt of deposits on future dates[(1)]	-	400	300

(1) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set in advance on the contract date.

Note 7 - Contingent Liabilities and Special Commitments - continued

C. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2014. Below is a description of material changes relative to the description provided in the 2014 annual report.

2) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions and a motion for approval of derivative claim. Bank management believes, 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 aforementioned claims and motions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2014 financial statements:

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 determination by the Supervisor was rescinded in an arrangement adopted as an agreed Court Order on June 16, 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

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 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 Government's Legal Counsel 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 Government's Legal Counsel.

On May 31, 2015, after receiving the aforementioned responses, the Court issued a verdict which confirmed the settlement agreement.

b) 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 Government's Legal Counsel for their opinions.

On February 2, 2015, the Government's Legal Counsel 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 Government's Legal Counsel. The plaintiffs' response to the aforementioned response by the banks was filed on April 1, 2015.

Note 7 - Contingent Liabilities and Special Commitments - continued

On April 19, 2015, a preliminary hearing took place and the Court ruled that a further hearing is to be scheduled for June 21, 2015, to be attended by representatives of the Government's Legal Counsel and of the Enforcement and Collection Authority. On June 21, 2015, the Court hearing took place, 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 - and a further hearing was scheduled for November 24, 2015.

c) 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.
Due to this motion being included in on-going arbitration with regard to other motions for class action status filed against the Bank and against other banks for other causes related to debt management in Court Order Execution Service files, the parties agreed that the Bank would file its response to the motion by December 31, 2015, should this arbitration fail.

d) 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, in person - 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.
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 deadline for filing the banks' response was set to October 11, 2015. A further pre-trial hearing was scheduled for October 25, 2015.

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 D.1) above.

The claim concerns a matter similar to the one discussed in section D.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.

The deadline for filing the banks' response was set at October 11, 2015. A further pre-trial hearing was scheduled for October 25, 2015.

e) In October 2013, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 622 million, alleging services unlawfully made contingent on other services and excessive interest charged with respect to loans guaranteed by the State. The plaintiffs claim that, as a pre-condition for providing loans guaranteed by the State, in which the State guarantees repayment to the Bank up to 70% of the loan amount, the Bank makes this contingent on the client depositing at least 25% of the loan amount. The plaintiffs claim that, in so doing, the Bank is in fact only lending 75% of the loan amount to the borrower, while charging interest on the full loan amount - even though it has no risk associated with 25% of the loan amount, deposited as a pre-condition for granting the loan.

The Bank filed its response to the motion on May 1, 2014 and the plaintiffs filed their response to the Bank's response on December 2, 2014.

On February 4, 2015, a pre-trial hearing took place. On February 17, 2015, the plaintiffs requested to withdraw the motion with no award of expenses.

The Court agreed to this request and adopted it as a verdict. This concluded legal proceedings in this case.

f) In October 2013, a claim and motion for class action status were filed with the Tel Aviv District Court against the Bank and against Bank Leumi, whose amount exceeds NIS 112.5 million, with the monetary remedy against the Bank was set in the motion at NIS 37.5 million, with regard to placement of monitoring cameras at ATM locations without proper signage informing clients of the presence of such cameras, which allegedly constitutes an invasion of their privacy.

On July 25, 2014, the banks filed their response to the motion and on October 5, 2014 a pre-trial hearing took place, wherein the Court asked for the opinion of the Government's Legal Counsel on the matter at hand, which was filed on January 20, 2015.

On January 28, 2015, after receiving the position of the Government's Legal Counsel, a further pre-trial hearing took place and in conformity with the Court decision, the defendant banks filed affidavits with regard to existence of signage at all branch entrances, in conformity with guidelines and directives of the Israeli Police.

A further pre-trial hearing is scheduled for June 28, 2015.

On June 1, 2015, an agreed motion for dismissal was filed by the plaintiff to dismiss their personal claim. On June 4, 2015, the Court approved the motion for dismissal and dismissed the plaintiff's personal claim.

Note 7 - Contingent Liabilities and Special Commitments - continued

g). 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 Conduct of Banking Business 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 and a further hearing is scheduled for October 15, 2015.

h) 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. A further hearing was held on July 31, 2015. The Court has yet to rule on this matter.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 118 million.

Note 7 - Contingent Liabilities and Special Commitments - continued

3) Motions for recognition as class actions are pending against the Bank, 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 at this stage, hence no provision was made for these.

   a) In March 2015, a counter-claim was filed against the Bank with the District Court in Lod, 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.

   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 Act, 1968 and regulations based there upon, 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).

Note 7 - Contingent Liabilities and Special Commitments - continued

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 defendants have yet to file their response. A preliminary hearing of the motion is scheduled for November 22, 2015.

See also section C. below. 4) With regard to an investigation 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.

Note 7 - Contingent Liabilities and Special Commitments - continued

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. The Court also announced its intention to make a decision on "the order of hearing the motions related to the derivative claim". See also section C. below. 4) With regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

4) Further to Note 19.D.13 to the Bank's financial statements for 2014 ("the annual report") with regard to the investigation by the US Department of Justice concerning Bank Group business with its US clients, since the approval of the annual report and to date, the Bank continued to intensively create a computer-based repository to include the quantitative information about US clients as required by the US DOJ.

   During this time, the Bank continued to collect electronic messages with regard to the US clients, exchanged at various Group sites (the Bank branch in Los Angeles, the Bank branch in London, Mizrahi Switzerland and branches in Israel).

   Furthermore, in this period the validation work by external experts continues with regard to quantitative data referring to accounts of US clients of the Bank Group. Note that the external experts have completed their work with regard to quantitative data concerning the Bank branch in Los Angeles and Mizrahi Switzerland Bank - and this data has been provided to the US DOJ.

   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 is 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.

   Note that 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.

Note 7 - Contingent Liabilities and Special Commitments - continued

The opinion of the Bank's legal counsel is that data provided to the US DOJ until soon prior to the publication date of these financial statements, may be relevant for determination of the exposure amount or exposure range of the Bank Group with regard to said data, should the Bank's position with regard to said data not be accepted by the US DOJ. Based on the aforementioned opinion and in view of data thus provided to date, the Bank has decided to increase the provision with respect to this inquiry to USD 30 million (NIS 113 million), compared to a provision balance of USD 24.5 million (NIS 95 million) accrued on the financial statements as of December 31, 2014. Note that the Bank's legal counsel have expressed their opinion that at this stage, too, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the exposure amount nor the exposure range.

Since discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, as noted above, and would only start after collection of the required material has been completed, validated by the external experts and provided to the US DOJ - it may transpire in future that the realized loss significantly exceeds the provision made to date.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of June 30, 2015 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodity contracts and others	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	3,856	-	-	-	-	3,856
Swaps	-	1,463	-	-	-	1,463
Total	3,856	1,463	-	-	-	5,319
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,463	-	-	-	1,463
B. ALM derivatives[1][2]						
Forward contracts	6,909	900	100,921	-	17	108,747
Option contracts traded on stock exchange:						
Options Written	-	-	1,722	739	-	2,461
Options Purchased	-	-	1,829	742	-	2,571
Other option contracts:						
Options Written	-	-	12,134	-	-	12,134
Options Purchased	-	-	10,775	-	-	10,775
Swaps	1,864	34,379	8,504	-	-	44,747
Total	8,773	35,279	135,885	1,481	17	181,435
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,591	17,939	-	-	-	19,530
C. Other derivatives[1]						
Forward contracts	-	-	1,363	-	-	1,363
Option contracts traded on stock exchange:						
Options Written	-	-	8,201	20,951	-	29,152
Options Purchased	-	-	8,201	20,951	-	29,152
Other option contracts:						
Options Written	-	223	-	43	-	266
Options Purchased	-	26	-	70	-	96
Swaps	-	4	116	11,021	-	11,141
Total	-	253	17,881	53,036	-	71,170

(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 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of June 30, 2015 (unaudited)					
	Interest contracts			contracts		
	NIS - CPI	Other	Contractual Foreign currency	with respect to shares	Commodity contracts and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	459	459
Foreign currency spot swap contracts	-	-	6,863	-	-	6,863
Total	-	-	6,863	-	459	7,322
Total stated amounts of derivative instruments	12,629	36,995	160,629	54,517	476	265,246
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	62	1	-	-	-	63
Negative fair value, gross	5	124	-	-	-	129
B. ALM derivatives(1)(2)						
Positive fair value, gross	267	1,323	1,924	111	-	3,625
Negative fair value, gross	218	1,522	2,690	3	-	4,433
C. Other derivatives(1)						
Positive fair value, gross	-	1	204	587	-	792
Negative fair value, gross	-	11	197	583	-	791
Total						
Positive fair value, gross(3)	329	1,325	2,128	698	-	4,480
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	329	1,325	2,128	698	-	4,480
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	88	114	587	515	-	1,304
Total						
Negative fair value, gross(3)	223	1,657	2,887	586	-	5,353
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	223	1,657	2,887	586	-	5,353
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	11	110	1,403	498	-	2,022

(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 2 million and negative fair value, gross of liabilities with respect to embedded derivative instruments amounting to NIS 3 million.

Note 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of June 30, 2014 (unaudited)					
	Interest contracts				Commodities and other contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares		Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	3,743	-	-	-	-	3,743
Swaps	-	2,139[3]	-	-	-	2,139
Total	3,743	2,139	-	-	-	5,882
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,139	-	-	-	2,139
B. ALM derivatives [1][2]						
Forward contracts	6,538	2,000	53,354	-	17	61,909
Option contracts traded on stock exchange:						
Options Written	-	-	3,458	1,625	-	5,083
Options Purchased	-	-	3,323	1,625	-	4,948
Other option contracts:						
Options Written	-	-	13,070	-	4	13,074
Options Purchased	-	-	11,491	-	3	11,494
Swaps	2,306	32,507	9,294	-	-	44,107
Total	8,844	34,507	93,990	3,250	24	140,615
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,707	18,279	-	-	-	19,986
C. Other derivatives[1]						
Forward contracts	-	-	779	-	-	779
Option contracts traded on stock exchange:						
Options Written	-	-	8,319	11,136	-	19,455
Options Purchased	-	-	8,319	11,136	-	19,455
Other option contracts:						
Options Written	-	481	-	2	-	483
Options Purchased	-	283	-	26	-	309
Swaps	-	3[3]	180	2,865	-	3,048
Total	-	767	17,597	25,165	-	43,529

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Reclassified.

Note 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

					As of June 30, 2014 (unaudited)	
	Interest contracts			contracts		
	NIS - CPI	Other	Contractual Foreign currency	with respect to shares	Commodity contracts and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	9,736	-	-	9,736
Total	-	-	9,736	-	17	9,753
Total stated amounts of derivative instruments	12,587	37,413	121,323	28,415	41	199,779
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	70	2	-	-	-	72
Negative fair value, gross	-	188		-	-	188
B. ALM derivatives (1)(2)						
Positive fair value, gross	247	1,285	1,358	250	-	3,140
Negative fair value, gross	207	1,512	1,151	5	-	2,875
C. Other derivatives(1)						
Positive fair value, gross	-	6	107	153	-	266
Negative fair value, gross	-	2	94	149	-	245
Total						
Positive fair value, gross(3)	317	1,293	1,465	403	-	3,478
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	317	1,293	1,465	403	-	3,478
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	77	129	348	334	-	888
Total						
Negative fair value, gross(3)	207	1,702	1,245	154	-	3,308
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	207	1,702	1,245	154	-	3,308
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	6	131	819	141	-	1,097

(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 11 million and negative fair value, gross of liabilities with respect to embedded derivative instruments amounting to NIS 5 million.

Note 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of December 31, 2014 (audited)					
	Interest contracts				Commodities	
	NIS - CPI	Other	Currency contracts	Contracts for shares	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

(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 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2014 (audited)					
	Interest contracts				Commodities	
	NIS - CPI	Other	Currency contracts	Contracts for shares	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 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

b) Credit risk on derivative instruments according to counter-party to the contract - Consolidated

	As of June 30, 2015 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [1]	**619**	**2,823**	**22**	**2**	**1,014**	**4,480**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(2,400)	-	-	(39)	(2,439)
Mitigation of credit risk with respect to cash collateral received	-	(299)	-	-	(66)	(365)
Net amount of assets with respect to derivative instruments	619	124	22	2	909	1,676
Off-balance sheet credit risk on derivative instruments[2]	-	1,495	100	-	1,197	2,792
Mitigation of off-balance sheet credit risk	-	(729)	-	-	(28)	(757)
Net off-balance sheet credit risk with respect to derivative instruments	-	766	100	-	1,169	2,035
Total credit risk on derivative instruments	619	890	122	2	2,078	3,711
Carrying amount of liabilities with respect to derivative instruments [3]	**540**	**3,151**	**-**	**4**	**1,658**	**5,353**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(2,400)	-	-	(39)	(2,439)
Pledged cash collateral	-	(617)	-	-	(24)	(641)
Net amount of liabilities with respect to derivative instruments	540	134	-	4	1,595	2,273

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 2 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 3 million.

Note 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

b) Credit risk on derivative instruments according to counter-party to the contract - Consolidated

	As of June 30, 2014 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**494**	**2,090**	**7**	**71**	**816**	**3,478**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,716)	-	-	(5)	(1,721)
Mitigation of credit risk with respect to cash collateral received	-	(304)	-	(33)	(143)	(480)
Net amount of assets with respect to derivative instruments	494	70	7	38	668	1,277
Off-balance sheet credit risk on derivative instruments[(2)]	83	1,097	34	-	563	1,777
Mitigation of off-balance sheet credit risk	-	(498)	-	-	(10)	(508)
Net off-balance sheet credit risk with respect to derivative instruments	83	599	34	-	553	1,269
Total credit risk on derivative instruments	577	669	41	38	1,221	2,546
Carrying amount of liabilities with respect to derivative instruments [(3)]	**214**	**2,250**	**-**	**-**	**844**	**3,308**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,716)	-	-	(5)	(1,721)
Pledged cash collateral	-	(465)	-	-	-	(465)
Net amount of liabilities with respect to derivative instruments	214	69	-	-	839	1,122

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 11 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 5 million.

Note 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

b) Credit risk on derivative instruments according to counter-party to the contract - Consolidated

	As of December 31, 2014 (audited)					
	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 the six-month period ended June 30, 2015, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments, amounting to NIS 8 million (in the six-month period ended June 30, 2014 and in all of 2014, the Bank recognized credit losses with respect to derivative instruments amounting to NIS 2 million and NIS 10 million, respectively).

Note 8 - Derivative instrument activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

c) Maturity dates – stated amounts: year-end balances - Consolidated

	As of June 30, 2015 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	1,661	2,830	7,314	824	12,629
Other	1,998	7,512	16,358	11,127	36,995
Foreign currency contracts	83,039	66,665	8,682	2,243	160,629
Contracts for shares	44,970	9,496	51	-	54,517
Commodities and other contracts	126	10	340	-	476
Total	131,794	86,513	32,745	14,194	265,246

	As of June 30, 2014 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	2,113	4,243	4,799	1,432	12,587
Other	4,100	5,416	15,486	12,411	37,413
Foreign currency contracts	61,109	49,881	4,942	5,391	121,323
Contracts for shares	22,630	5,717	2	66	28,415
Commodities and other contracts	38	3	-	-	41
Total	89,990	65,260	25,229	19,300	199,779

	As of December 31, 2014 (audited)				
	Up to three months	3 months to 1 year	1-5 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 9 - Employee Rights

Employment terms of most Group employees and managers are subject to provisions of collective bargaining agreements. Liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities provided for those employees by law. For more information about various benefits to Bank employees and managers, see Note 16 to the financial statements as of December 31, 2014 and Note 9 to the financial statements as of March 31, 2015.

1. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2015	2014	2015	2014	2014
	(unaudited)		(unaudited)		(audited)
					NIS in millions
Cost of service(1)	5	5	11	7	18
Cost of interest(2)	7	7	14	12	27
Expected return on plan assets(3)	(1)	(1)	(2)	(2)	(4)
Deduction of non-allowed amounts:	-	-	-	-	-
Net actuarial loss (gain)(4)	1	-	2	-	1
Total benefit cost, net	12	11	25	17	42
Total expense with respect to defined-contribution pension	1	1	1	1	2
Total expenses included in payroll and associated expenses	13	12	26	18	44

2. Deposits to defined-benefit pension plans

	Forecast for(5)	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2015	2015	2014	2015	2014	2014
		(unaudited)		(unaudited)		(audited)
						NIS in millions
Deposits	3	2	2	3	3	6

(1) Cost of service is the current accrual of future employee benefits in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated deposits to be paid into defined-benefit pension plans through end of 2015.

Note 10 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

A. Fair value balances

	As of June 30, 2015 (unaudited)				
	Carrying amount	Fair value Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	25,318	8,287	15,064	1,955	25,306
Securities[3]	15,833	13,539	2,088	308	15,935
Loans to the public, net	152,317	359	11,015	142,139[5]	153,513
Loans to Governments	273	-	-	269	269
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	4,478	641	3,033	804[2]	4,478
Other financial assets	889	367	-	522	889
Total financial assets	199,143[4]	23,193	31,200	146,032	200,425
Financial liabilities					
Deposits from the public	153,736	359	39,656	116,113[5]	156,128
Deposits from banks	1,903	-	423	1,500	1,923
Deposits from the Government	60	-	-	68	68
Debentures and subordinated notes	22,648	22,710	-	937	23,647
Liabilities with respect to derivative instruments	5,350	540	3,231	1,579[2]	5,350
Other financial liabilities	4,876	706	3,312	858	4,876
Total financial liabilities	188,573[4]	24,315	46,622	121,055	191,992

(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 details of the carrying amount and fair value of securities, see Note 2.

(4) Includes assets and liabilities amounting to NIS 49,222 million and NIS 46,820 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 2 million and NIS 3 million, respectively.

Note 10 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances

	As of June 30, 2014 (unaudited)				
	Carrying				Fair value
	amount	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	27,181	7,850	17,800	1,524	27,174
Securities[3]	9,744	6,692	2,793	303	9,788
Securities loaned or purchased in repurchase agreements	112	112	-	-	112
Loans to the public, net	143,353	248[6]	9,294	135,578[5]	145,120
Loans to Governments	285	-	-	283	283
Investments in associates	34	-	-	34	34
Assets with respect to derivative instruments	3,467	501	2,500	466[2]	3,467
Other financial assets	2,066	925	-	1,141	2,066
Total financial assets	186,242[4]	16,328	32,387	139,329	188,044
Financial liabilities					
Deposits from the public	148,063	248[6]	31,155	119,301[5]	150,704
Deposits from banks	1,523	-	38	1,518	1,556
Deposits from the Government	56	-	-	64	64
Debentures and subordinated notes	19,120	18,526	-	1,873	20,399
Liabilities with respect to derivative instruments	3,303	215	2,196	892[2]	3,303
Other financial liabilities	3,925[7]	138[6]	3,167	621[7]	3,926
Total financial liabilities	175,990[4]	19,127	36,556	124,269	179,952

(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 details of the carrying amount and fair value of securities, see Note 2.
(4) Includes assets and liabilities amounting to NIS 44,515 million and NIS 32,530 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 11 million and NIS 5 million, respectively.
(6) Reclassified.
(7) Restated. For more information about adoption of the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1. to the financial statements.

Note 10 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances

	As of December 31, 2014 (audited)				
	Carrying				Fair value
	amount	Level 1(1)	Level 2(1)	Level 3(1)	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 repurchase agreements	107	107	-	-	107
Loans to the public, net	147,569	487	10,230	(5) 137,517	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	(2) 977	5,602
Other financial assets	1,931	675	-	1,256	1,931
Total financial assets	(4) 196,608	19,605	34,102	143,640	197,347
Financial liabilities					
Deposits from the public	152,379	487	32,571	(5) 121,739	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	(2) 1,036	6,497
Other financial liabilities	(6) 4,937	390	3,291	(6) 1,256	4,937
Total financial liabilities	(4) 185,929	21,550	40,945	126,930	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 details of the carrying amount and fair value of securities, see Note 2.

(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) Restated. For more information about adoption of the Supervisor of Banks' directives with regard to employee rights, see Note 1.C.1. to the financial statements.

Note 10 – 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

	As of June 30, 2015 (unaudited)			
	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	6,080	2,020	-	8,100
Of foreign governments	1,436	-	-	1,436
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	20	191	211
Of others overseas	-	48	15	63
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	644	-	-	644
Credit with respect to loans to clients	359	-	-	359
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	223	106	329
Other	-	1,246	79	1,325
Foreign currency contracts	225	1,562	341	2,128
Contracts for shares	416	2	278	696
Other financial assets	367	-	-	367
Other	-	-	2	2
Total assets	9,653	5,121	1,012	15,786
Liabilities				
Deposits with respect to borrowing from clients	359	-	-	359
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	209	14	223
Other	-	1,516	141	1,657
Foreign currency contracts	231	1,506	1,150	2,887
Contracts for shares	309	-	274	583
Other financial liabilities	706	-	-	706
Other	-	-	3	3
Total liabilities	1,605	3,231	1,582	6,418

(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 10 – 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

				As of June 30, 2014 (unaudited)
	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	3,446	2,534	-	5,980
Of foreign governments	221	-	-	221
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	28	175	203
Of others in Israel	4	-	-	4
Of others overseas	3	60	22	85
Shares	4	-	-	4
Securities held for trading:				
Debentures of the Government of Israel	1,177	-	-	1,177
Securities loaned or purchased in repurchase agreements	112	-	-	112
Credit with respect to loans to clients	248	-	-	248
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	164	153	317
Other	-	1,223	70	1,293
Foreign currency contracts	186	1,044	235	1,465
Contracts for shares	315	69	8	392
Other financial assets	925	-	-	925
Other	-	-	11	11
Total assets	6,764	5,122	674	12,560
Liabilities				
Deposits with respect to borrowing from clients	248	-	-	248
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	195	12	207
Other	-	1,544	158	1,702
Foreign currency contracts	145	450	650	1,245
Contracts for shares	70	7	72	149
Other financial liabilities	138	-	-	138
Other	-	-	5	5
Total liabilities	601	2,196	897	3,694

(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 10 – 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

	As of December 31, 2014 (audited)			
	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 purchased in repurchase 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 sold in conjunction with 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	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 10 – 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

	As of June 30, 2015 (unaudited)				For the three months ended June 30, 2015	For the six months ended June 30, 2015
	Fair value					
	Level 1	Level 2	Level 3	Total	Loss	Losses
Impaired credit whose collection is contingent on collateral	-	67	93	160	(4)	(4)

	As of June 30, 2014(2) (unaudited)				For the three months ended June 30, 2014	For the six months ended June 30, 2014
	Fair value					
	Level 1	Level 2	Level 3	Total	Loss	Losses
Impaired credit whose collection is contingent on collateral	-	129	191	320	(27)	(27)

	December 31, 2014(2) (audited)				For the year ended December 31, 2014
	Fair value				
	Level 1	Level 2	Level 3	Total	Loss
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 10 – 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:

	For the three months ended June 30, 2015 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2015	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 June 30, 2015	Unrealized gains (losses) with respect to instruments held as of June 30, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	202	(11)	-	-	-	-	-	191	(8)
Of others overseas	16	(1)	-	-	-	-	-	15	(1)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	175	(52)	-	-	-	(17)	-	106	107
Other	79	(4)	-	4	-	-	-	79	44
Foreign currency contracts	599	(65)	-	142	-	(335)	-	341	234
Contracts for shares	276	(35)	-	67	-	(30)	-	278	-
Other	12	(10)	-	-	-	-	-	2	-
Total assets	1,359	(178)	-	213	-	(382)	-	1,012	376
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	10	-	-	4	-	(1)	1	14	(11)
Other	166	(22)	-	1	-	(4)	-	141	(9)
Foreign currency contracts	1,190	44	-	483	-	(567)	-	1,150	(683)
Contracts for shares	273	(37)	-	65	-	(27)	-	274	-
Other	2	1	-	-	-	-	-	3	-
Total liabilities	1,641	(14)	-	553	-	(599)	1	1,582	(703)

(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 10 – 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:

	For the three months ended June 30, 2014 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2014	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 June 30, 2014	Unrealized gains (losses) with respect to instruments held as of June 30, 2014
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	176	(1)	-	-	-	-	-	175	(1)
Of others overseas	23	(1)	-	-	-	-	-	22	(2)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	146	16	-	8	-	(17)	-	153	78
Other	68	1	-	1	-	-	-	70	34
Foreign currency contracts	318	24	-	73	-	(180)	-	235	97
Contracts for shares	7	(12)	-	16	-	(3)	-	8	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-
Other	12	(1)	-	-	-	-	-	11	-
Total assets	750	26	-	98	-	(200)	-	674	206
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	11	-	-	1	-	(1)	1	12	-
Other	178	(23)	-	3	-	-	-	158	(2)
Foreign currency contracts	467	148	-	131	-	(96)	-	650	(390)
Contracts for shares	78	20	-	16	-	(42)	-	72	-
Commodities and other contracts	1	-	-	-	-	(1)	-	-	-
Other	5	-	-	-	-	-	-	5	-
Total liabilities	740	145	-	151	-	(140)	1	897	(392)

(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 10 – 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:

	For the six months ended June 30, 2015 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2014	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 June 30, 2015	Unrealized gains (losses) with respect to instruments held as of June 30, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	199	(8)	-	-	-	-	-	191	(8)
Of others overseas	16	(1)	-	-	-	-	-	15	(1)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	119	16	-	7	-	(36)	-	106	107
Other	58	13	-	8	-	-	-	79	44
Foreign currency contracts	680	65	-	412	-	(816)	-	341	234
Contracts for shares	120	98	-	111	-	(51)	-	278	-
Other	10	(8)	-	-	-	-	-	2	-
Total assets	1,202	175	-	538	-	(903)	-	1,012	376
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	10	1	-	4	-	(2)	1	14	(11)
Other	173	(32)	-	4	-	(4)	-	141	(9)
Foreign currency contracts	736	392	-	888	-	(866)	-	1,150	(683)
Contracts for shares	117	94	-	110	-	(47)	-	274	-
Other	6	(3)	-	-	-	-	-	3	-
Total liabilities	1,042	452	-	1,006	-	(919)	1	1,582	(703)

(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 10 – 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:

	For the six months ended June 30, 2014 (unaudited)								
		Realized / unrealized gains (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 June 30, 2014	Unrealized gains(losses) with respect to instruments held as of June 30, 2014
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	176	(1)	-	-	-	-	-	175	(1)
Of others overseas	24	(2)	-	-	-	-	-	22	(2)
Assets with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	56	76	-	13	-	(28)	36	153	78
Other	67	3	-	2	-	(2)	-	70	34
Foreign currency contracts	321	(45)	-	167	-	(208)	-	235	97
Contracts for shares	91	(24)	-	32	-	(91)	-	8	-
Commodities and other contracts	1	-	-	-	-	(1)	-	-	-
Other	11	-	-	-	-	-	-	11	-
Total assets	747	7	-	214	-	(330)	36	674	206
Liabilities									
Liabilities with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	11	1	-	1	-	(3)	2	12	-
Other	134	19	-	13	-	(8)	-	158	(2)
Foreign currency contracts	503	169	-	220	-	(242)	-	650	(390)
Contracts for shares	83	24	-	28	-	(63)	-	72	-
Commodities and other contracts	1	1	-	-	-	(2)	-	-	-
Other	14	(2)	-	-	-	(7)	-	5	-
Total liabilities	746	212	-	262	-	(325)	2	897	(392)

(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 10 – 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:

	For the year ended December 31, 2014								
		Realized / unrealized gains (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 gains(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 10 – 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 June 30, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	4	Estimated recuperation rate	Recuperation rate	5.00%	5.00%
CLN	188	Cash flows discounting	Probability of default	0.52%-1.12%	0.83%
Debentures of foreign others	15	Cash flows discounting	Discount rate	5.35%	5.35%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	66	Cash flows discounting	Inflationary expectations	0.88%-0.90%	0.88%
Contracts for shares	2	Option pricing model	Standard deviation for shares	46.89%-63.99%	49.2%
Other	738	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	1.73%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	8	Cash flows discounting	Inflationary expectations	0.88%-0.90%	0.89%
Other	1,574	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	1.80%

	Fair value as of June 30, 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	170	Cash flows discounting	Probability of default	0.28%-1.21%	1.06%
Debentures of foreign others	22	Cash flows discounting	Discount rate	4.44%-5.57%	5.33%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	106	Cash flows discounting	Inflationary expectations	0.20%-0.29%	0.22%
Contracts for shares	11	Option pricing model	Standard deviation of shares	20.35%-28.45%	26.0%
Other	360	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	1.95%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	11	Cash flows discounting	Inflationary expectations	0.20%-0.22%	0.21%
Other	886	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	2.03%

Note 10 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

	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 flows discounting	Probability of default	0.22%-1.23%	1.11%
Debentures of foreign others	16	Cash flows discounting	Discount rate	6.02%	6.02%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	73	Cash flows discounting	Inflationary expectations	0.35%-0.38%	0.36%
Contracts for shares	10	Option pricing model	Standard deviation for shares	28.60%-81.21%	62.5%
Other	904	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	1.72%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	4	Cash flows discounting	Inflationary expectations	0.35%-0.36%	0.35%
Other	1,038	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	1.71%

E. Transfers between Levels 1, 2 and 3 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 10 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

G. The following table lists the fair value of items measured at fair value due to the election of the fair value option:

	Fair value as of June 30, 2015	Gains with respect to changes in fair value for the six months ended June 30, 2015
Securities available for sale	-	6

	Fair value as of June 30, 2014	Gains with respect to changes in fair value for the six months ended June 30, 2014
Securities available for sale	513	10

	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 11 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2015	2014	2015	2014	2014
		(unaudited)		(unaudited)	(audited)
A. Interest revenues[(1)]					
From loans to the public	1,797	1,562	2,290	2,488	5,129
From loans to Governments	2	2	4	5	9
From deposits with the Bank of Israel	4	43	13	79	108
From deposits with banks	5	6	8	14	13
From securities loaned or acquired in repurchase agreements	-	-	-	1	1
From debentures	43	26	86	43	87
Total interest revenues	1,851	1,639	2,401	2,630	5,347
B. Interest expenses (revenues)					
On deposits from the public	476	495	432	729	1,393
On deposits from governments	1	-	2	1	3
On deposits from banks	10	5	11	11	18
On debentures and subordinated notes	277	215	180	251	556
From other liabilities	5	1	(5)	2	2
Total interest expenses (revenues)	769	716	620	994	1,972
Total interest revenues, net	1,082	923	1,781	1,636	3,375
C. Details of net effect of hedging financial derivatives on interest revenues	(11)	(17)	60	(25)	(46)
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	21	6	34	13	33
Available for sale	20	17	45	23	45
Held for trade	2	3	7	7	9
Total included under interest revenues	43	26	86	43	87

(1) Includes the effective element in the hedging ratios.

Note 12 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2015	2014	2015	2014	2014
	(unaudited)		(unaudited)		(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading operations					
1. From activity in derivative instruments					
Non-effective element of hedging ratios(1)	4	-	8	-	3
Net revenues with respect to ALM derivative instruments(2)	(780)	(155)	(508)	(72)	1,373
Total from activity in derivative instruments	(776)	(155)	(500)	(72)	1,376
2. From investment in debentures					
Gains on sale of debentures available for sale	5	13	97	32	110
Total from investment in debentures	5	13	97	32	110
3. Exchange rate differences, net	786	166	552	114	(1,566)
4. Gains (losses) from investment in shares					
Gains on sale of available-for-sale shares	-	3	-	3	5
Provision for impairment of available-for-sale shares	-	-	-	-	(2)
Dividends from available-for-sale shares	1	2	3	4	8
Total from investment in shares	1	5	3	7	11
Total non-interest financing revenues (expenses) with respect to non-trading operations	16	29	152	81	(69)

(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.

Note 12 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2015	2014	2015	2014	2014
	(unaudited)		(unaudited)		(audited)
B. Non-interest financing revenues (expenses)with respect to trading operations[1]					
Net revenues (expenses) with respect to other derivative instruments	(47)	(35)	(63)	(15)	238
Realized gain (loss) from adjustment to fair value of debentures held for trade, net	(21)	3	(12)	22	37
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	7	1	3	(9)	(33)
Total from trading operations[2]	(61)	(31)	(72)	(2)	242
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	(19)	1	(13)	12	25
Foreign currency exposure	(50)	(26)	(76)	(22)	206
Exposure to shares	6	(12)	15	7	12
Exposure to commodities and others	2	6	2	1	(1)
Total	(61)	(31)	(72)	(2)	242

(1) Includes exchange rate differentials resulting from trading operations.
(2) For interest revenues from investment in debentures held for trading, see Note 11.D.

Note 13 – Operating Segments

For the six months ended June 30, 2015 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,365	5	262	83	320	(254)	1,781
Inter-segment	(400)	25	4	(1)	64	308	-
Total interest revenues, net	965	30	266	82	384	54	1,781
Non-interest financing revenues	2	-	1	-	15	62	80
Commissions and other revenues	364	36	126	28	121	77	752
Total revenues	1,331	66	393	110	520	193	2,613
Expenses with respect to credit losses	19	2	58	6	(8)	(2)	75
Operating and other expenses							
From outside operating segments	925	39	268	25	113	216	1,586
Inter-segment	(57)	1	(28)	30	46	8	-
Other operating expenses - total	868	40	240	55	159	224	1,586
Pre-tax profit	444	24	95	49	369	(29)	952
Provision for taxes on profit	164	9	35	17	136	(10)	351
After-tax profit	280	15	60	32	233	(19)	601
Share in net profits of associates, after tax	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	280	15	60	32	233	(20)	600
Attributable to non-controlling interest	(22)	-	-	-	-	-	(22)
Attributable to shareholders of the banking corporation	258	15	60	32	233	(20)	578
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	8.5%	38.6%	21.0%	15.2%	13.8%	-	10.8%
Average balance of assets	114,042	1,903	9,272	4,467	27,092	42,013	198,789
Of which: Investments in associates	-	-	-	-	-	38	38
Average balance of liabilities	69,145	9,195	12,446	4,954	47,475	46,065	189,280
Average balance of risk assets (1)	69,847	919	6,531	4,738	37,963	5,556	125,554
Average balance of provident and mutual fund assets	-	-	-	-	-	95,869	95,869
Average balance of securities (2)	39,662	3,139	14,433	4,176	77,935	85,645	224,990
Average balance of loans to the public	113,793	1,002	9,066	4,322	22,098	-	150,281
Average balance of deposits from the public	66,532	8,615	12,036	4,902	47,341	13,957	153,383
Loans to the public, net (end balance)	117,328	873	9,435	4,465	20,216	-	152,317
Deposits from the public (end balance)	68,422	8,367	12,363	5,020	46,592	12,972	153,736
Average balance of other assets managed(3)	9,358	6	138	243	1,785	-	11,530

B. 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	839	12	244	76	339	-	1,510
Margin from activities of receiving deposits	107	18	15	4	30	-	174
Other	19	-	7	2	15	54	97
Total interest revenues, net	965	30	266	82	384	54	1,781

(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 13 – Operating Segments - Continued
For the six months ended June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,377	13	242	90	262	(348)	1,636
Inter-segment	[5] (458)	16	8	(9)	124	319	-
Total interest revenues, net	919	29	250	81	386	(29)	1,636
Non-interest financing revenues	3	-	-	-	12	64	79
Commissions and other revenues[5]	[5] 353	31	114	24	[5] 116	64	702
Total revenues	1,275	60	364	105	514	99	2,417
Expenses with respect to credit losses	24	2	43	(4)	(45)	(2)	18
Operating and other expenses							
From outside operating segments	884	39	250	28	103	158	1,462
Inter-segment	(56)	3	(26)	30	41	8	-
Other operating expenses - total[1]	828	42	224	58	144	166	1,462
Pre-tax profit	423	16	97	51	415	(65)	937
Provision for taxes on profit[1]	157	6	36	19	154	(25)	347
After-tax profit	266	10	61	32	261	(40)	590
Share in net profits of associates, after tax	-	-	-	-	-	3	3
Net profit:							
Before attribution to non-controlling interest	266	10	61	32	261	(37)	593
Attributable to non-controlling interest	(17)	-	-	-	-	-	(17)
Attributable to shareholders of the banking corporation	249	10	61	32	261	(37)	576
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	9.4%	30.0%	26.1%	15.7%	16.9%	-	11.9%
Average balance of assets	105,357	1,857	8,017	4,414	25,052	37,543	182,240
Of which: Investments in associates	-	-	-	-	-	61	61
Average balance of liabilities[1]	64,399	8,030	10,209	3,895	44,990	42,066	173,589
Average balance of risk assets [2]	63,489	797	5,545	4,732	37,590	5,046	117,199
Average balance of provident and mutual fund assets	-	-	-	-	-	78,174	78,174
Average balance of securities [3]	37,872	2,216	11,026	4,506	66,539	72,251	194,410
Average balance of loans to the public[5]	105,029	940	7,929	4,410	23,463	-	141,771
Average balance of deposits from the public	61,267	7,388	9,804	3,832	44,587	17,294	144,172
Loans to the public, net (end balance)	107,753	961	8,303	4,359	21,977	-	143,353
Deposits from the public (end balance)	62,034	8,670	10,522	4,222	45,708	16,907	148,063
Average balance of other assets managed[4]	10,051	7	180	336	221	-	10,795

B. 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	717	12	211	72	308	-	1,320
Margin from activities of receiving deposits	173	17	27	7	50	-	274
Other	29	-	12	2	28	(29)	42
Total interest revenues, net	919	29	250	81	386	(29)	1,636

(1) Restated due to initial application of US GAAP with regard to employee rights.
(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.
(5) Reclassified.

Note 13 – Operating Segments - Continued

For the three months ended June 30, 2015 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,273	(1)	118	42	136	(486)	1,082
Inter-segment	(777)	16	17	(1)	57	688	-
Total interest revenues, net	496	15	135	41	193	202	1,082
Non-interest financing revenues	1	-	1	-	8	(55)	(45)
Commissions and other revenues	182	18	63	14	60	38	375
Total revenues	679	33	199	55	261	185	1,412
Expenses with respect to credit losses	19	1	29	(2)	(4)	(3)	40
Operating and other expenses							
From outside operating segments	477	19	139	11	56	123	825
Inter-segment	(30)	-	(16)	16	25	5	-
Other operating expenses - total	447	19	123	27	81	128	825
Pre-tax profit	213	13	47	30	184	60	547
Provision for taxes on profit	80	5	18	10	69	22	204
After-tax profit	133	8	29	20	115	38	343
Share in net profits of associates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	133	8	29	20	115	38	343
Attributable to non-controlling interest	(13)	-	-	-	-	-	(13)
Attributable to shareholders of the banking corporation	120	8	29	20	115	38	330
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	7.8%	46.4%	20.1%	19.3%	14.2%	66.8%	12.4%

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	429	6	124	37	174	-	770
Margin from activities of receiving deposits	56	9	7	2	14	-	88
Other	11	-	4	2	5	202	224
Total interest revenues, net	496	15	135	41	193	202	1,082

Note 13 – Operating Segments - Continued

For the three months ended June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	911	3	118	43	118	(270)	923
Inter-segment[(1)]	(438)	12	9	(3)	75	345	-
Total interest revenues, net	473	15	127	40	193	75	923
Non-interest financing revenues	1	-	-	-	7	(10)	(2)
Commissions and other revenues[(1)]	176	17	59	11	56	26	345
Total revenues	650	32	186	51	256	91	1,266
Expenses with respect to credit losses	20	2	21	(3)	(13)	(4)	23
Operating and other expenses							
From external entities[(1)]	452	20	126	12	53	79	742
Inter-segment	(28)	-	(13)	15	22	4	-
Other operating expenses - total	424	20	113	27	75	83	742
Pre-tax profit	206	10	52	27	194	12	501
Provision for taxes on profit	77	4	20	10	73	3	187
After-tax profit	129	6	32	17	121	9	314
Share in net profits of associates, after tax	-	-	-	-	-	2	2
Net profit:							
Before attribution to non-controlling interest	129	6	32	17	121	11	316
Attributable to non-controlling interest	(9)	-	-	-	-	-	(9)
Attributable to shareholders of the banking corporation	120	6	32	17	121	11	307
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	8.8%	36.2%	27.9%	17.3%	15.0%	18.3%	12.7%

B. 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	371	6	109	36	153	-	675
Margin from activities of receiving deposits	87	9	13	4	26	-	139
Other	15	-	5	-	14	75	109
Total interest revenues, net	473	15	127	40	193	75	923

(1) Reclassified.

Note 13 – Operating Segments - Continued

For the year ended December 31, 2014 (audited) - continued

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds	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[5]	(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]	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[1]	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[1]	65,452	8,592	10,654	4,114	46,002	43,358	178,172
Average balance of risk assets [2]	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 [3]	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[4]	10,252	6	167	293	631	-	11,349

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	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

(1) Restated due to initial application of US GAAP with regard to employee rights.
(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.

(5) Reclassified.

Note 14 - Cumulative Other Comprehensive Income

A. Changes to cumulative other comprehensive income, 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
	For the three months ended June 30, 2015 (unaudited)						
Balance as of March 31, 2015	45	1	8	(149)	(95)	(7)	(88)
Net change in the period	(96)	(1)	(6)	35	(68)	2	(70)
Balance as of June 30, 2015	(51)	-	2	(114)	(163)	(5)	(158)
	For the three months ended June 30, 2014[(1)] (unaudited)						
Balance as of March 31, 2014	8	(3)	8	(85)	(72)	(3)	(69)
Net change in the period	(12)	-	1	(8)	(19)	(2)	(17)
Balance as of June 30, 2014	(4)	(3)	9	(93)	(91)	(5)	(86)
	For the six months ended June 30, 2015 (unaudited)						
Balance as of December 31, 2014	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	(56)	(1)	(16)	(12)	(85)	1	(86)
Balance as of June 30, 2015	(51)	-	2	(114)	(163)	(5)	(158)
	For the six months ended June 30, 2014[(1)] (unaudited)						
Balance as of December 31, 2013	12	(3)	3	(73)	(61)	(4)	(57)
Net change in the period	(16)	-	6	(20)	(30)	(1)	(29)
Balance as of June 30, 2014	(4)	(3)	9	(93)	(91)	(5)	(86)
	For the year ended December 31, 2014[(1)] (audited)						
Balance as of December 31, 2013	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	5	1	18	(102)	(78)	(6)	(72)
	For the year ended December 31, 2013[(1)] (audited)						
Balance as of December 31, 2012	-	-	3	-	3	3	-
Effect of initial adoption of US GAAP with regard to employee rights	-	-	-	(61)	(61)	(5)	(56)
Balance as of December 31, 2012 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	12	(3)	3	(73)	(61)	(4)	(57)

(1) Restated. For details of adoption of US GAAP for employee rights, see Note 1.C.1.
(2) Foreign currency translation adjustment of associates whose functional currency differs from that of the Bank.

Note 14 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the three months ended June 30					
			2015			2014[1]
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in other comprehensive income component, 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	(150)	57	(93)	(6)	2	(4)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[2]	(5)	2	(3)	(13)	5	(8)
Net change in the period	(155)	59	(96)	(19)	7	(12)
Adjustments from translation of financial statements						
Adjustments from translation of financial statements[3]	(1)	-	(1)	-	-	-
Net change in the period	(1)	-	(1)	-	-	-
Cash flows hedges						
Net gain (loss) with respect to cash flows hedging	(11)	5	(6)	1	-	1
Net (gains) losses reclassified to the statement of profit and loss[4]	-	-	-	-	-	-
Net change in the period	(11)	5	(6)	1	-	1
Employee benefits						
Net actuarial gain (loss)	57	(23)	34	(10)	2	(8)
Net (gain) loss re-classified to the statement of profit and loss	1	-	1	-	-	-
Net change in the period	58	(23)	35	(10)	2	(8)
Total net change in the period	(109)	41	(68)	(28)	9	(19)
Total net change in the period attributable to non-controlling interest	(2)	-	(2)	2	-	2
Total net change in the period attributable to shareholders of the Bank	(111)	41	(70)	(26)	9	(17)

(1) Restated. For details of adoption of US GAAP for employee rights, see Note 1.C.1.
(2) Pre-tax amount included on the statement of profit and loss under "Non-interest financing revenues". For details, see Note 12.A.2.
(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 11.C.

For the six months ended June 30						For the year ended December 31,		
2015			2014[(1)]			2014[(1)]		
Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
5	(1)	4	7	(3)	4	100	(38)	62
(97)	37	(60)	(32)	12	(20)	(110)	41	(69)
(92)	36	(56)	(25)	9	(16)	(10)	3	(7)
(1)	-	(1)	-	-	-	6	(2)	4
(1)	-	(1)	-	-	-	6	(2)	4
(26)	10	(16)	11	(4)	7	30	(10)	20
-	-	-	(2)	1	(1)	(7)	2	(5)
(26)	10	(16)	9	(3)	6	23	(8)	15
(22)	8	(14)	(30)	10	(20)	(47)	17	(30)
2	-	2	-	-	-	1	-	1
(20)	8	(12)	(30)	10	(20)	(46)	17	(29)
(139)	54	(85)	(46)	16	(30)	(27)	10	(17)
(1)	-	(1)	1	-	1	3	(1)	2
(140)	54	(86)	(45)	16	(29)	(24)	9	(15)

Note 15 – Other matters

a. On January 29, 2015, Tefahot Issuance issued NIS 3,150 million par value debentures (Series 39, CPI-linked), pursuant to the shelf prospectus dated July 30, 2013, for consideration of NIS 3,150 million.

On June 7, 2015, Tefahot Issuance issued 3 debenture series (Series 40 and 41 - NIS-denominated and Series 42 - CPI-linked) with total par value of NIS 1,804 million, pursuant to the shelf prospectus dated July 30, 2013, for consideration amounting to NIS 1,804 million.

On July 21, 2015, after the balance sheet date, Mizrahi Tefahot Issuance contracted with qualified investors a private placement of NIS 820 million par value debentures (Series 37) of Mizrahi Tefahot Issuance, for consideration of NIS 845 million.

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

b. 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. For further information, see Note 16.A. to Financial Statements as of December 31, 2014.

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.

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 15 - Other matters - continued

The options to be issued in the name of the trustee for each officer, pursuant to option plans D or E, would be 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.

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:

- 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.

  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.

Note 15 - Other matters - continued

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 rules of IFRS 2, 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.

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