Condensed Financial Statements as of March 31, 2015

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Condensed Board of Directors' Report for Financial Statements as of March 31, 2015

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Condensed Board of Directors' Report
on the Financial Statements as of March 31, 2015

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 18, 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 March 31, 2015.

The financial statements are compiled 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 quarter months of 2015

Real Developments

Macro-economic data in the first quarter of 2015 shows continued moderate economic growth, with a mixed trend showing more moderate foreign trade along with higher local demand and industrial output benchmarks.

The Bank of Israel Composite Index increased in the first quarter of this year at an annualized rate of 4.2%, compared to an annualized increase of 4.5% in the final quarter of 2014 (which resulted from economic recovery following Operation Protective Edge) and an increase of 2.7% in all of 2014.

Export of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the first quarter of 2015 significantly, by 5.6%, following an increase by 1.6% in the final quarter of 2014, against the background of revaluation of the NIS against the currency basket. Import of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) further decreased in the first quarter of 2015 (-2.9%), but more moderately so than in the final quarter of 2014 (-8.1%), due to a decrease in import of consumer goods and investment products, along with a moderate increase in import of raw materials. The overall trade deficit in the first quarter of 2015 amounted to USD 0.7 billion, compared to USD 2.4 billion in the corresponding period last year - a decrease of 70%.

The economic sector turnover index continued to rise in recent months, indicating increased demand, primarily in construction and industry. The industrial output benchmark continued to rise, due to the positive effect of a sharp increase in high-tech output. Conversely, the retail chain turnover index and the credit card purchase index rose more moderately. The purchasing manager index and the consumer confidence index improved somewhat in the first quarter of 2015.

In the first quarter of 2015, unemployment was at 5.4%, compared to 5.6% in the previous quarter. This was along with a decrease in employment rate to 63.8% in the first quarter of 2015, from 64.2% in the previous quarter.

Inflation and exchange rates

In the first quarter of 2015, the Consumer Price Index decreased by 1.3%, compared to a decrease of 0.5% in the corresponding period last year. The lower CPI was primarily impacted by lower prices of transportation and communication, clothing and footwear as well as home maintenance - and was partly offset by higher prices of household furniture and equipment and prices of fruits and vegetables. In the twelve months ended March 2015, the CPI decreased by 1.0%.

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

	March 31, 2015	December 31, 2014	Change in %
Exchange rate of:			
USD (in NIS)	3.980	3.889	2.3
EUR (in NIS)	4.274	4.725	(9.5)

In the period from the end of the first quarter of 2015 through May 13, 2015, the trend in USD/NIS exchange rate was reversed, with the exchange rate as of May 13, 2015 at NIS 3.855 - a revaluation of 0.9% since the end of 2014. The EUR/NIS exchange rate on said date was 4.327 - a revaluation of 8.4% since the end of 2014.

In support of the exchange rate, the Bank of Israel purchased in the first quarter of 2015 foreign currency valued at USD 1.8 million, after purchasing USD 7.0 billion in all of 2014 (of which, foreign currency purchasing to offset the effect on exchange rates of natural gas production from Tamar reservoir amounting to USD 1.0 billion in the first quarter of 2015, compared to USD 3.5 billion in all of 2014).

Monetary and fiscal policy

In the first quarter 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 three months of 2015, the government budget recorded a NIS 0.7 billion cumulative surplus, compared to a NIS 0.3 billion cumulative deficit in the corresponding period last year. The deficit rate for the 12 months ended March 2015 is 2.6%, compared to 2.8% for all of 2014. Tax revenues increased in the first three months of 2015 by 4.4% over the year-ago period, while Government expenditure increased by 2.8% in the same period.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first two months of 2015 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 8,160 apartments, an increase of 5.9% over the corresponding period last year and an increase of 4.3% over the corresponding period in 2013. This was due, *inter alia*, to the lower likelihood of materialization of the "0% VAT" program. In this period, most regions showed higher demand for apartments, with the most significant growth over the corresponding period last year recorded in the Jerusalem region (23.9%) and in the Southern region (10.6%). Based on the average pace of sales in the six months ended February 2015, the housing inventory would account for 9.7 months' sales - lower than inventory in December 2014 (10.9 months) and in December 2013 (12.2 months). In the first three months of 2015, housing loans originated to the public amounted to NIS 14.8 billion, compared to NIS 12.5 billion in the corresponding period last year - an increase of 18.4%.

According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in February 2015 by 3.7%, compared to 4.6% in December 2014. The increase in housing prices has been continuously moderating since May 2014.

Capital market

Early in 2015, the market trended higher, further to the upward trend since 2012 in Israel and overseas.

Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were higher in the first quarter of 2015 by 11% and 10%, respectively, compared to increase of 10.2% and 6.7% in 2014. The Tel Aviv 75 Index was up 7.0%, following a decrease of 9.8% in 2014. The Real Estate 15 Index was sharply higher by 18.8%, compared to a moderate increase of 0.9% in 2014. The Yeter 50 Index was up by 14.8%, following a decrease of 11.5% in 2014. Financials were also higher; the Banking and Financials 15 indices were up by 6.6% each, following decreases of 5.6% and 7.7% in 2014.

Average daily trading volume in equities and convertible securities in the first quarter of 2015 was NIS 1.4 billion, compared to NIS 1.25 billion in the previous four quarters.

Total equity issues (excluding equity issued overseas) were lower in the first quarter of 2015, amounting to NIS 2.0 billion, compared to a quarterly average of NIS 3.2 billion in the previous four quarters.

Debenture market - Government debentures were higher in the first quarter of 2015, as well. This was due to the low interest and inflation environment and due to low interest rates and yields to maturity overseas. Long-term debentures rose at a higher rate than short-term debentures and corporate debenture indices rose at a lower rate than Government debentures.

The General Debenture Index rose by 3.5% in the first quarter of 2015, following an increase of 4.7% in 2014. The CPI-Linked Government Debenture Index rose in the first quarter of this year by 5.1%, after rising by 5.8% in 2014. The Non-Linked Debenture Index was up by 3.5%, following an increase of 7.2% in 2014. The leading Tel Bond benchmarks were also higher: The Tel Bond 20 Index was up by 1.7% in the first quarter of this year, after rising by 1.0% in 2014; the Tel Bond 40 Index was up by 1.6%, after rising by 0.6% in 2014.

Further lowering of the Bank of Israel interest rate impacted corporate debentures and was reflected by further 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 first quarter of 2015 at an average spread of 1.01 percentage points, compared to 0.80 percentage points at the end of 2014; debentures rated A traded an average spread of 2.75 percentage points, compared to 2.61 percentage points at the end of 2014.

In total, the business sector raised from the public and from institutional investors by debenture issuance some NIS 18.0 billion in the first quarter of 2015, compared to an average of NIS 16.6 billion raised in the previous four quarters. The average daily trading volume in debentures in the first quarter of 2015 was NIS 4.7 billion, compared to NIS 4.5 billion over the previous four quarters.

Global economy

The extended, sharp decline in energy prices and the stronger USD globally had a negative effect on the US economy in the first quarter of 2015. US GDP grew in the first quarter of 2015 at an annualized 0.2% after growing at 2.2% in the previous quarter. Growth was negatively affected by a sharp decline, by 7.2%, in export of goods and services and by a decline by 2.5% in investment in fixed assets. Note, however, that since the end of the first quarter of this year - we see a weaker USD and higher oil prices. Private consumption increased by a moderate 1.9%. Industrial output and the purchasing manager index showed more moderate in the first quarter. Data for the US labor market late, in the first quarter of 2015, were lower than expected: The employment rate continued to be low, the number of new jobs created was significantly lower than expected and consequently, salaries increased at a slow pace. Conversely, growth in retail increased and the core inflation rate, net of the effect of lower energy and food prices, in terms of the trailing 12 months, trended higher: 1.8% in March 2015, compared to 1.6% in December 2014. Given developments in the first months 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 improved somewhat in the first quarter of 2015. This was against the backdrop of the launch of a quantitative expansion program in this quarter, 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. In recent months, industrial output and the purchasing manager index improved. Some improvement was also evident in retail and in expectation surveys. The core inflation rate, in terms of the trailing 12 months, reached 0.6% in March 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 11.3%, as of February 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. The main concern for the Euro Zone economy lies with the outcome of negotiations between Euro Zone representatives and the Government of Greece.

In the first quarter of 2015, growth of China's economy further moderated, to 7.0% compared to 7.3% in the previous quarter. This was against the backdrop of slower imports and further decline in industrial output and retail sales. The inflation rate, in terms of the trailing 12 months, slowed somewhat to 1.4% in March 2015, compared to 1.5% in December 2014.

In the first quarter of 2015, the Dow Jones Index was down by 0.4%, following an increase by 8.3% in 2014 - as opposed to the trend for most benchmarks around the world. The S&P 500 Index rose in the first quarter of this year by 0.1%, after rising by 12.6% in 2014. The NASDAQ 100 Index rose in the current period by 2.1%, after rising by 18.9% in 2014.

The UK FTSE 100 Index and the French CAC Index were up in 2015 by 3.2% and 17.8%, respectively - after being down by 2.7% and 0.5% in 2014. The German DAX benchmark continued to rise in 2015 by 22.0%, after rising by 2.7% in 2014. In Japan, the Nikkei Index was up by 11.2% in the first quarter of 2015, following an increase of 7.1% in 2014.

Key Data for Bank Group

Evolution of revenues and expenses

	For the quarter ended				
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	NIS in millions				
Profit and profitability					
Interest revenues, net	699	846	893	923	713
Non-interest financing revenues (expenses)	125	43	51	(2)	81
Commissions and other revenues	377	383	354	345	357
Total revenues	1,201	1,272	1,298	1,266	1,151
Expenses with respect to credit losses	35	150	5	23	(5)
Operating and other expenses	767	(4)767	(4)793	(4)745	(4)722
Profit before provision for taxes	399	355	500	498	434
Provision for taxes	145	(4)133	(4)181	(4)187	(4)159
Net profit[(1)]	244	(4)218	(4)311	(4)304	(4)268

	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	NIS in millions				
Balance sheet - key items					
Balance sheet total	201,096	(4)198,645	(4)195,212	(4)188,219	(4)184,812
Loans to the public, net	150,694	147,569	146,699	143,353	141,061
Securities	13,802	14,259	12,579	9,744	6,519
Deposits from the public	153,002	152,379	150,648	148,063	145,701
Debentures and subordinated notes	20,804	20,580	21,059	19,120	17,887
Equity[(1)]	11,126	(4)10,894	(4)10,685	(4)10,321	(4)10,038

Evolution of revenues and expenses - financial ratios

	For the quarter ended				
	March 31, 2015	December (4)31, 2014	September 30, (4)2014	June 30, (4)2014	March 31, (4)2014
Key financial ratios (in percent)					
Net profit return on equity[(2)]	9.2	8.3	12.4	12.5	11.3
Deposits from the public to loans to the public, net	101.5	103.3	102.7	103.3	103.3
Capital to total assets	5.53	5.48	5.47	5.48	5.43
Ratio of Tier I capital to risk elements	9.17	(5)9.12	(5)9.01	(5)9.00	(5)8.87
Total ratio of capital to risk elements	12.72	(5)13.03	(5)12.94	(5)13.05	(5)12.97
Cost income ratio[(3)]	63.9	60.3	61.1	58.8	62.7
Expenses with respect to credit losses to loans to the public, net for the period[(2)]	0.09	0.41	0.01	0.06	(0.01)
Basic net earnings per share	1.06	0.95	1.34	1.32	1.16
Diluted net earnings per share	1.05	0.95	1.34	1.31	1.16

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and shareholder equity attributable to equity holders of the Bank.
(2) Calculated on annualized basis.
(3) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(4) Restated. See Note 1.C.1 to the financial statements for more information about adoption of US GAAP with regard to employee rights.
(5) Excludes the effect of adoption of US GAAP with regard to employee rights, which came into effect on January 1, 2015.

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 assessment by the Bank of future events which includes, inter alia: forecast 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 in 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 2015-2016. The revised dividend policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to equity holders.

The revised dividend policy is subjec to the Bank maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I equity 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 dividend policy 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 dividend policy, as noted above, the Bank Board of Directors resolved, on May 18, 2015, to distribute a dividend amounting to NIS 36.6 million with respect to earnings in the first quarter of 2015.

Below are details of dividends distributed and declared by the Bank since 2013 through the publication date of these financial statements (in reported amounts):

Declaration date	Payment date	Dividend per share (Agorot)	Total dividends paid (NIS in millions)
August 14, 2013	September 10, 2013	32.77	75.0
May 18, 2015	June 14, 2015	15.85	(1) 36.6

(1) The dividend amount is 158.5% of issued share capital, i.e. NIS 0.1585 per NIS 0.1 par value share. The effective date for dividend payment is June 1, 2015 and the payment date is June 14, 2015. The final dividend per share is subject to change due to realized convertible securities of the Bank.

Profit and Profitability

Net profit for the Group in the first quarter of 2015 amounted to NIS 244 million.

The financial results in this quarter were impacted by a significant decrease in the known CPI, by 1.6%, as well as by accounting recording of fair value of derivatives, so that in total, these financial statements include expenses amounting to NIS 128 million in net profit terms. The reported net profit reflects annualized return on equity at 9.2%.

Group net profit in the corresponding period last year amounted to NIS 268(1) million, reflecting a return on equity at 11.3%(1) (10.6%(1) for all of 2014). The effect of fair value of derivatives and of the CPI in the corresponding period last year - amounted to expenses amounting to NIS 56 million in net profit terms.

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

- Financing revenues from current operations (including net interest revenues and non-interest financing revenues) increased in the first quarter of 2015 by NIS 92 million, an increase of 11.1% over the corresponding period last year. Total operating results of the Group in financing items were impacted by the CPI and accounting recording of fair value of derivatives, which resulted in a cumulative expense amounting to NIS 206 million, compared to NIS 90 million in the corresponding period last year. See also the analysis of evolution of financing revenues, below.
- Expenses with respect to credit losses increased in the first quarter of 2015 by NIS 40 million compared to the corresponding period last year, primarily due to an increase in group-based provision due to increase in size of the commercial loan portfolio in this quarter.
- Commissions and other revenues increased in the first quarter of 2015 by 5.6% over the corresponding period last year. Growth in commissions and other revenues is due to further business expansion, despite the negative effect of various regulations, as well as to Bank actions taken to re-organize assets and to improve the branch network.
- Operating and other expenses increased in the first quarter of 2015 by NIS 45 million, or 6.2%, compared to the corresponding period last year(1), due to increase in marketing and advertising expenses, legal counsel expenses and depreciation expenses (including Bank Yahav).

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

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues [1] from current operations in the first quarter of 2015 amounted to NIS 924 million, as described below, compared to NIS 832 million in the corresponding period last year, an increase of 11.1%.

Financing revenues in this quarter were affected by the 1.6% decrease in the known CPI, compared to a decrease by 0.7% in the corresponding period last year and by further lowering of the Bank of Israel interest rate (average interest rate of 0.20% in this quarter, compared to 0.91% in the corresponding period last year).

As presented below, the effects other than current operations amounted to expenses of NIS 100 million in this quarter, compared to NIS 38 million in the corresponding period last year.

Net interest revenues and non-interest financing revenues[1] in the first quarter of 2015 amounted to NIS 824 million, as described on these financial statements, compared to NIS 794 million in the corresponding period last year, an increase of 3.8%.

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

			First Quarter
	2015	2014	Change in %
Interest revenues, net	699	713	
Non-interest financing revenues[1]	125	81	
Total financing revenues	824	794	3.8
Less:			
Effect of CPI	(165)	(59)	
Revenues from collection of interest on troubled debt	9	24	
Gain from realized debentures available for sale and from debentures held for trade, net	97	28	
Effect of accounting treatment of derivatives at fair value and others[2]	(41)	(31)	
Total effects other than current operations	(100)	(38)	
Total financing revenues from current operations	924	832	11.1

(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 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 Quarter
Operating segment	2015	2014	Change amount	Change rate (In %)
Retail banking:				
Mortgages	190	168	22	13.1
Households	280	280	-	-
Small business	128	123	5	4.1
Total	598	571	27	4.7
Private banking	15	14	1	7.1
Commercial banking	41	41	-	-
Business banking	198	198	-	-
Financial management	(28)	(30)	2	(6.7)
Total	824	794	30	3.8

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

			First Quarter
	2015	2014	Change in %
Israeli currency - non-linked	112,441	100,775	11.6
Israeli currency - linked to the CPI	52,747	53,347	(1.1)
Foreign currency (including Israeli currency linked to foreign currency)	14,032	13,269	5.8
Total	179,220	167,391	7.1

The increase in average balances of interest-bearing assets in the NIS-denominated non-linked segment is primarily due to increased retail loans and the increased securities portfolio attributable to this segment.

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

The increase in the securities portfolio is also the reason for the increase in average balance of assets in the foreign currency segment.

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

	For the quarter ended March 31,	
Linkage segments	2015	2014
Israeli currency - non-linked	2.43	2.33
Israeli currency - linked to the CPI	0.22	0.03
Foreign currency	2.07	2.07
Total	1.60	1.53

(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 35 million in the first quarter of 2015, or an annualized rate of 0.09% of total loans to the public, net, compared with a NIS 5 million decrease in expenses in the corresponding period last year - an increase of NIS 40 million in total.

Credit loss expenses in the period were affected by an increase in group-based provision due to increase in volume of the commercial loan portfolio in this quarter.

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

		First Quarter
	2015	2014
Provision for credit losses on individual basis (including accounting write-offs)	(14)	(15)
Provision for credit losses on Group basis:		
By extent of arrears	(7)	(6)
Other	56	16
Total expenses with respect to credit losses	35	(5)
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	0.09%	(0.01%)
Of which: With respect to commercial loans other than housing loans	0.30%	(0.04%)
Of which: With respect to housing loans	(0.02%)	-

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

Operating segment		First Quarter
	2015	2014
Retail banking:		
Mortgages	(4)	-
Households	4	4
Small business	29	22
Total	29	26
Private banking	1	-
Commercial banking	8	(1)
Business banking	(4)	(32)
Financial management	1	2
Total	35	(5)

Net interest revenues after expenses with respect to credit losses in the first quarter of 2015 amounted to NIS 664 million, compared to NIS 718 million in the corresponding period last year - a decrease of 7.5% - and with non-interest financing revenues - a decrease of 1.3% (as noted above, excluding the effect of credit losses and including non-interest financing revenues - an increase of 3.8%). 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 502 million in the first quarter of 2015, compared with NIS 438 million in the corresponding period last year - a year-over-year increase of 14.6%. See remarks below.

Non-interest financing revenues in the first quarter of 2015 amounted to NIS 125 million, compared to NIS 81 million in the corresponding period last year. This item includes, inter alia, the effect of fair value and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding expense (revenue) is recognized as interest revenues, in conformity with accounting rules as well as gain from debentures. See analysis of financing revenues from current operations above.

Commission revenues amounted to NIS 356 million in the first quarter of 2015, compared with NIS 348 million in the corresponding period last year - an increase of 2.3%.
The Bank continues to grow its business, so that the this growth exceeds the cumulative regulatory impact. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Other revenues in the first quarter of 2015, amounted to NIS 21 million compared with NIS 9 million in the corresponding period last year - an increase of NIS 12 million. Other revenues in this quarter include capital gains which reflect the Bank's operating results in conjunction with asset re-organization and improvements to the branch network.

Operating and other expenses amounted to NIS 767 million in the first quarter of 2015, compared with NIS 722 million(1) in the corresponding period last year - an increase of 6.2%. See remarks below.

Payroll and associated expenses amounted to NIS 465 million in the first quarter of 2015, compared with NIS 451 million(1) in the corresponding period last year - an increase of 3.1%.

Maintenance and depreciation expenses for buildings and equipment in the first quarter of 2015 amounted to NIS 181 million, compared to NIS 171 million in the corresponding period last year - an increase of 5.8%, primarily attributed to increase in depreciation expenses with respect to IT (including Bank Yahav).

Other expenses amounted to NIS 121 million in the first quarter of 2015, compared with NIS 100 million in the corresponding period last year - an increase of NIS 21 million - which is attributed, *inter alia*, to increase in marketing and advertising expenses and legal counsel expenses.

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

	2015				2014
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
[2]Cost-Income Ratio	[3]63.9	[1]60.3	[1]61.1	[1]58.8	[1]62.7

(1) Re-stated. For details of adoption of US GAAP with regard to employee rights, see Note 1.C.1 to the financial statements.
(2) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(3) Excluding the effect of the CPI and accounting recording of fair value of derivatives, as noted above, the Cost-Income Ratio was 54.5%.

Pre-tax profit for the Group in the first quarter of 2015 amounted to NIS 399 million, compared to NIS 434 million[1] in the corresponding period last year – a decrease of 8.1%.

The provision for taxes in the first quarter of 2015 amounted to NIS 145 million, compared to NIS 159 million[1] in the corresponding period last year – a decrease of 8.8%. The rate of provision for taxes on pre-tax profit in the first quarter of 2015 was 36.3% - compared to 36.6% in the corresponding period last year.

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

The share of non-controlling interest in net results of subsidiaries in the first quarter of 2015 amounted to NIS 9 million, compared to NIS 8 million in the corresponding period last year.

Net profit attributable to equity holders of the Bank in the first quarter of 2015 amounted to NIS 244 million, compared to NIS 268 million in the corresponding period last year – a decrease of 9.0%.

Below is the development of Group return[1] on equity[2] and ratio of Tier I capital[3] to risk elements (in percent):

	2015	2014			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	9.2	[4]8.3	[4]12.4	[4]12.5	[4]11.3
Ratio of Tier I capital to risk elements at end of quarter	9.17	[5] 9.12	[5] 9.01	[5]9.00	[5]8.87

(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 gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss 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) Re-stated. For details of adoption of US GAAP with regard to employee rights, see Note 1.C.1 to the financial statements.
(5) Excluding the effect of adoption of US GAAP with regard to employee rights, which became effective on January 1, 2015.

Earnings per share

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

	First Quarter		All of
	2015	[(1)]2014	[(1)]2014
Basic earnings per share:	1.06	1.16	4.78
Diluted earnings per share:	1.05	1.16	4.75

(1) Re-stated. For details of adoption of US GAAP with regard to employee rights, see Note 1.C.1 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	
		March 31	December 31	March 31	December 31
	2015	2014	2014	2014	2014
Balance sheet total	201,096	(1)184,812	(1)198,645	8.8	1.2
Loans to the public, net	150,694	141,061	147,569	6.8	2.1
Deposits from the public	153,002	145,701	152,379	5.0	0.4
Securities	13,802	6,519	14,259	111.7	(3.2)
Shareholder equity	11,126	(1)10,038	(1)10,894	10.8	2.1

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

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of March 31, 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 quarter of 2015 by NIS 3.1 billion, or 2.1% (increase by 6.8% 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	
		March 31	December 31	March 31	December 31
	2015	2014	2014	2014	2014
Israeli currency					
Non-linked	86,673	76,050	82,823	14.0	4.6
CPI- linked	51,936	52,712	52,876	(1.5)	(1.8)
Foreign currency and foreign currency linked	12,085	12,299	11,870	(1.7)	1.8
Total	150,694	141,061	147,569	6.8	2.1

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

				Change in % over	
		March 31	December 31	March 31	December 31
Operating segment	2015	2014	2014	2014	2014
Retail banking:					
Mortgages	92,947	85,915	91,581	8.2	1.5
Households	20,872	19,225	20,462	8.6	2.0
Small business	9,216	8,052	9,018	14.5	2.2
Total retail	123,035	113,192	121,061	8.7	1.6
Private banking	939	975	1,051	(3.7)	(10.7)
Commercial banking	4,419	4,499	4,240	(1.8)	4.2
Business banking	22,301	22,395	21,217	(0.4)	5.1
Total – business and others	27,659	27,869	26,508	(0.8)	4.3
Total	150,694	141,061	147,569	6.8	2.1

Below are details of troubled 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 March 31, 2015			As of March 31, 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. Troubled credit risk									
Impaired credit risk	820	165	985	1,118	227	1,345	781	172	953
Inferior credit risk	78	-	78	105	-	105	110	-	110
Credit risk under special supervision[2]	1,311	67	1,378	1,453	100	1,553	1,162	50	1,212
Total troubled credit risk	2,209	232	2,441	2,676	327	3,003	2,053	222	2,275
Of which: Non-impaired debt in arrears 90 days or longer[2]	1,050			1,137			1,001		
2. Non-performing assets[3]	767			1,026			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 994 million (as of March 31, 2014 - NIS 1,096 million; as of December 31, 2014 - NIS 950 million).

(3) Non-accruing assets.

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

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

	March 31, 2015	March 31, 2014	December 31, 2014
Ratio of impaired loans to the public to total loans to the public	0.5	0.8	0.5
Ratio of impaired loans to the public to total non-housing loans	1.5	2.2	1.5
Ratio of troubled loans to the public to total non-housing loans	2.2	3.1	2.1
Ratio of housing loans in arrears 90 days or longer to total loans to the public[1][2]	0.7	0.8	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 troubled credit risk to total credit risk with respect to the public	1.2	1.6	1.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.09	(0.01)	0.12
Ratio of net write-offs to average balance of loans to the public, net	0.05	0.05	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 March 31, 2015 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	126	672	798
2.	Construction and real estate	46	729	775
3.	Construction and real estate	1	718	719
4.	Construction and real estate	513	138	651
5.	Construction and real estate	183	421	604
6.	Construction and real estate	497	41	538

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 decreased in the first quarter of 2015 by NIS 0.5 billion, and increased by NIS 7.3 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:

				Change in % over
		March 31	December 31	December 31
	2015	2014	2014	2014
Israeli currency				
Non-linked	9,940	2,504	10,192	(2.5)
CPI- linked	230	960	699	-
Foreign currency and foreign currency linked	3,528	2,956	3,264	8.1
Non-monetary items	104	99	104	-
Total	13,802	6,519	14,259	(3.2)

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	
	March 31, 2015	December 31, 2014
Government debentures:		
Government of Israel	12,490	13,631
US Government	796	115
Total government debentures	13,286	13,746
Debentures of banks in developed nations:		
UK	99	97
Israel	124	123
Germany	119	117
Other	4	5
Total debentures of banks in developed nations	346	342
Corporate debentures (composition by sector):		
Industry	10	10
Construction	16	16
Power and water	-	1
Public and community services	12	11
Financial services	28	29
Total corporate debentures	66	67
Shares	104	104
Total securities	13,802	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 March 31, 2015, compared to 77% at the end of 2014. In the first quarter of 2015, deposits from the public with the Bank Group increased by NIS 0.6 billion, or 0.4% (increase by 5.0% 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	
		March 31	December 31	March 31	December 31
	2015	2014	2014	2014	2014
Israeli currency					
Non-linked	98,101	95,653	98,541	2.6	(0.4)
CPI- linked	18,794	21,889	19,040	(14.1)	(1.3)
Foreign currency and foreign currency linked	36,107	28,159	34,798	28.2	3.8
Total	153,002	145,701	152,379	5.0	0.4

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

				Change in % over	
		March 31	December 31	March 31	December 31
	2015	2014	2014	2014	2014
Retail banking:					
Households	66,455	61,043	65,701	8.9	1.1
Small business	11,804	9,818	11,068	20.2	6.6
Total retail	78,259	70,861	76,769	10.4	1.9
Private banking	8,939	7,603	9,090	17.6	(1.7)
Commercial banking	4,980	3,877	4,546	28.4	9.5
Business banking	47,746	44,794	47,117	6.6	1.3
Financial management	13,078	18,566	14,857	(29.6)	(12.0)
Total	153,002	145,701	152,379	5.0	0.4

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

		March 31	December 31
	2015	2014	2014
Maximum deposit			
Up to 1	51,109	51,985	50,887
1 to 10	31,751	25,106	31,119
10 to 100	16,337	13,783	15,522
100 to 500	15,960	12,522	15,511
Above 500	37,845	42,305	39,340
Total	153,002	145,701	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 March 31, 2015 was 5.53%, compared to 5.48%[1] as of the end of 2014.

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

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, as from January 01, 2015 the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk elements of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions set forth the manner of calculation of total capital and total risk elements

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

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

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

	March 31, 2015	March 31, 2014	December 31, 2014
	Basel III	Basel III	Basel III
Ratio of Tier I capital to risk elements	9.17	(1)8.87	(1)9.12
Ratio of Tier I capital to risk elements	9.17	(1)8.87	(1)9.12
Ratio of total capital to risk elements	12.72	(1)12.97	(1)13.03
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.00	9.00	9.00
Total minimum capital ratio required by the directives of the Supervisor of Banks(2)	12.50	12.50	12.50

(1) Excluding the effect of adoption of US GAAP with regard to employee rights, which became effective on January 1, 2015.

(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 at 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 01, 2017, on consolidated basis, in conformity with data as of the current reporting date, are 9.8% and 13.3%, respectively.
Note that the minimum Tier I capital ratio for the first quarter of 2015 is 9.0%.

Off Balance Sheet Activity

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

				Change in % ove	
		March 31	December 31	March 31	December 31
	2015	2014	2014	2014	2014
Off balance sheet financial instruments other than derivatives (1):					
Documentary credit	387	324	345	19.4	12.2
Loan guarantees	2,310	2,385	2,173	(3.1)	6.3
Guarantees to home buyers	10,893	10,000	10,450	8.9	4.2
Guarantees and other liabilities	4,306	3,620	4,007	19.0	7.5
Unutilized revolving credit card facilities	7,595	7,231	7,478	5.0	1.6
Unutilized debitory account and other credit facilities in accounts available on demand	19,448	16,338	19,773	19.0	(1.6)
Irrevocable commitments for loans approved but not yet granted	12,687	9,161	11,807	38.5	7.5
Commitments to issue guarantees	7,080	6,374	7,040	11.1	0.6
Financial derivatives(2):					
Total par value of financial derivatives	293,486	204,406	271,477	43.6	8.1

(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 in 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 % ove	
		March 31	December 31	March 31	December 31
	2015	2014	2014	2014	2014
Securities(1)	224,031	189,148	210,645	18.4	6.4
Assets of provident funds for which the Group provides operating services	74,695	57,438	71,649	30.0	4.3
Assets of mutual funds for which the Bank provides operating services	21,608	18,964	21,241	13.9	1.7
Assets held in trust by the Bank Group	75,676	63,685	77,849	18.8	(2.8)
Other assets under management(2)	13,834	13,089	11,701	5.7	18.2

(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 65 million in the first quarter of 2015, compared with NIS 58 million in the corresponding period last year - an increase of 12.1%.
(2) Including:
-Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loans. 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 quarter of 2015 amounted to NIS 43 million, compared with NIS 34 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 rate differences, the contribution of investees amounted to NIS 31 million, similar to 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 quarter of 2015 amounted to NIS 9 million, compared to NIS 8 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2015 was 7.5% on annualized basis, compared to 6.6% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2015 amounted to NIS 20,986.6 million, compared to NIS 20,812.5 million as of December 31, 2014 – an increase of NIS 174 million, or 0.8%. Net loans to the public as of March 31, 2015 amounted to NIS 7,400 million, compared to NIS 7,299 million as of December 31, 2014 – an increase of NIS 101 million, or 1.4%. Net deposits from the public as of March 31, 2015 amounted to NIS 17,994 million, compared to NIS 17,793 million as of December 31, 2014 – an increase of NIS 201 million, or 1.1%.

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 quarter of 2015 (excluding net financing revenues from excess cash) amounted to NIS 12.4 million, compared to NIS 10.8 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2015 was 9.4% on annualized basis, compared to 10.0% 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.

Net profit of Mizrahi Bank Switzerland in the first quarter of 2015 amounted to CHF 0.2 million, compared to CHF 0.3 million in the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2015 amounted to CHF 206 million, compared to CHF 221 million at the end of 2014.

Loans to the public as of March 31, 2015 amounted to CHF 78 million, compared to CHF 76 million at end of 2014. The balance of securities as of March 31, 2015 amounted to CHF 3 million, similar to the balance at end of 2014. Deposits with banks as of March 31, 2015 amounted to CHF 123 million, compared to CHF 142 million at end of 2014. Deposits from the public as of March 31, 2015 amounted to CHF 144 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 quarter of 2015, net of exchange rate effects, amounted to net profit of NIS 0.4 million, compared with NIS 1.3 million in the corresponding period last year.

Actual net profit results of Mizrahi Overseas Holdings include the effect of changes in exchange rates, which is covered by the Bank's own resources.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 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 thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 1.7% of these investments are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of March 31, 2015 amounted to NIS 116 million, compared to NIS 123 million at the end of 2014. Bank net gain from investments in non-banking corporations, after provision for impairment, amounted in the first quarter of 2015 to NIS 1.4 million, compared to NIS 1.5 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 stated 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. 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 Regulations with regard to supervisory operating segments, see Note 1.D.2 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 real estate products 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 quarter		Percentage of total net profit in the first quarter		Return on equity (in %) in the first quarter	
	2015	2014	2015	2014	2015	2014
Household:						
Mortgages	106	91	36.1	28.8	9.2	9.1
Other	25	38	8.5	12.0	8.0	13.5
Private banking	7	4	2.4	1.3	36.9	25.3
Small business	27	28	9.2	8.9	19.6	25.0
Commercial banking	13	15	4.4	4.7	12.7	15.0
Business banking	116	140	39.4	44.3	13.8	18.8
Financial management	(50)	(48)	-	-	-	-
Total	244	268	100.0	100.0	9.2	11.3

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the three months ended March 31, 2015					For the three months ended March 31, 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	245	6	-	(159)	92	169	6	-	291	466
Inter-segment	29	(1)	-	349	377	104	(1)	-	(123)	(20)
Total interest revenues, net	274	5	-	190	469	273	5	-	168	446
Non-interest financing revenues	-	-	1	-	1	-	-	2	-	2
Commissions and other revenues	51	33	54	44	182	53	34	46	44	177
Total revenues	325	38	55	234	652	326	39	48	212	625
Expenses with respect to credit losses	4	-	-	(4)	-	4	-	-	-	4
Operating and other expenses										
From outside operating segments	364	6	17	71	458	343	6	17	67	433
Inter-segment	(26)	(1)	-	-	(27)	(27)	(1)	-	-	(28)
Total operating and other expenses	338	5	17	71	431	316	5	17	67	405
Pre-tax profit	(17)	33	38	167	221	6	34	31	145	216
Provision for taxes on profit	(7)	13	14	61	81	2	12	11	54	79
After-tax profit	(10)	20	24	106	140	4	22	20	91	137
Net profit (loss):										
Before attribution to non-controlling interest	(10)	20	24	106	140	4	22	20	91	137
Attributable to non-controlling interest	(9)	-	-	-	(9)	(8)	-	-	-	(8)
Attributable to equity holders of the banking corporation	(19)	20	24	106	131	(4)	22	20	91	129
Return on capital (net profit as % of average capital)					8.9%					10.1%
Average asset balance	17,400	2,742	-	92,225	112,367	16,242	2,841	-	84,960	104,043
Average balance of liabilities	65,927	2,742	-	90	68,759	60,987	2,843	-	121	63,951
Average balance of risk assets	16,883	-	-	52,149	69,032	15,775	-	-	46,690	62,465
Average balance of securities	-	-	40,417	-	40,417	-	-	37,094	-	37,094
Average balance of loans to the public	17,382	2,742	-	92,212	112,336	16,232	2,841	-	84,948	104,021
Average balance of deposits from the public	65,923	-	-	-	65,923	60,931	-	-	-	60,931
Loans to the public (end balance)	17,770	3,102	-	92,947	113,819	16,302	2,923	-	85,915	105,140
Deposits from the public (end balance)	66,455	-	-	-	66,455	61,043	-	-	-	61,043
Average balance of other assets managed	1,993	-	-	7,761	9,754	1,193	-	-	9,338	10,531
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	222	5	-	183	410	187	5	-	154	346
Margin from receiving deposits	51	-	-	-	51	86	-	-	-	86
Other	1	-	-	7	8	-	-	-	14	14
Total interest revenues, net	274	5	-	190	469	273	5	-	168	446

Contribution of the household segment to Group profit in the first quarter of 2015 amounted to NIS 131 million, compared to NIS 129 million in the corresponding period last year. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first quarter of 2015 amounted to NIS 106 million, compared to NIS 91 million in the corresponding period last year - an increase of 16.5%. Net interest revenues before expenses with respect to credit losses amounted to NIS 190 million, compared to NIS 168 million in the corresponding period last year, an increase of NIS 22 million - primarily due to an increase in mortgage business volume - reflected in an increase of NIS 7.3 billion in the average loan balance. Provision for credit losses in the current quarter amounted to a decrease in expense by NIS 4 million, attributed to a decrease in arrears and to the effect of the CPI on the provision amount. Commissions and other revenues were unchanged. Operating and other expenses increased by 6.0% year-over-year.

Contribution of the household segment (excluding mortgages) in the first quarter of 2015 amounted to NIS 25 million, compared to NIS 38 million in the corresponding period last year - a decrease of NIS 13 million. Interest revenues, net before expenses with respect to credit losses were essentially unchanged compared to the corresponding period last year, such that the volume increase in lending reduced the margin erosion from receipt of deposits due to the low interest rate environment. Commissions and other revenues increased by NIS 5 million, primarily due to commissions from capital market operations. Expenses with respect to credit losses in the first quarter of 2015 amounted to NIS 4 million, similar to the corresponding period last year. Operating expenses increased by 6.5% compared to the corresponding period last year, attributed to the segment share of increase in marketing and advertising expenses, legal counsel expenses and depreciation expenses. Furthermore, operating and other expenses were re-stated. For more information see Note 1.C.1 with regard to adoption of the Supervisor of Banks' directives with regard to employee rights.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First Quarter		
	2015	2014	Change (in %)
Mortgages originated (for housing and for any purpose)			
From Bank funds	5,403	4,711	14.7
From Treasury funds:			
Directed loans	25	40	(37.5)
Standing loans and grants	36	52	(30.8)
Total new loans	5,464	4,803	13.8
Re-financed loans	1,173	694	69.0
Total loans originated	6,637	5,497	20.7
Number of borrowers (includes re-financed loans)	14,140	11,601	21.9

Results of Private Banking Segment

	For the three months ended March 31, 2015			For the three months ended March 31, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	6	-	6	10	-	10
Inter-segment	9	-	9	4	-	4
Total interest revenues, net	15	-	15	14	-	14
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	13	5	18	9	5	14
Total revenues	28	5	33	23	5	28
Expenses with respect to credit losses	1	-	1	-	-	-
Operating and other expenses						
From outside operating segments	20	-	20	19	-	19
Inter-segment	1	-	1	3	-	3
Total operating and other expenses	21	-	21	22	-	22
Pre-tax profit	6	5	11	1	5	6
Provision for taxes on profit	2	2	4	-	2	2
Net profit attributable to equity holders of the banking corporation	4	3	7	1	3	4
Return on capital (net profit as % of average capital)			36.9%			25.3%
Average asset balance	1,950	-	1,950	1,989	-	1,989
Average balance of liabilities	9,240	-	9,240	7,588	-	7,588
Average balance of risk assets	943	-	943	779	-	779
Average balance of securities	-	3,200	3,200	-	1,925	1,925
Average balance of loans to the public	1,012	-	1,012	926	-	926
Average balance of deposits from the public	8,658	-	8,658	7,516	-	7,516
Loans to the public, net (end balance)	939	-	939	975	-	975
Deposits from the public (end balance)	8,939	-	8,939	7,603	-	7,603
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	6	-	6	6	-	6
Margin from receiving deposits	9	-	9	8	-	8
Other	-	-	-	-	-	-
Total interest revenues, net	15	-	15	14	-	14

Contribution of the private banking segment to Group profit in the first quarter of 2015 amounted to NIS 7 million, compared to NIS 4 million in the corresponding period last year - an increase of NIS 3 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. Commissions and other revenues in the first quarter of 2015 amounted to NIS 18 million, compared to NIS 14 million in the corresponding period last year - primarily due to commissions from activity in the capital market. Expenses with respect to credit losses in the current quarter increased by NIS 1 million over the corresponding period last year - attributed to increase in the rate of group-based provision in this segment. Operating and other expenses were essentially unchanged from the year-ago period.

Results of the Small Business Segment

	For the three months ended March 31, 2015				For the three months ended March 31, 2014			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	142	2	-	144	122	2	-	124
Inter-segment	(16)	-	-	(16)	(1)	-	-	(1)
Total interest revenues, net	126	2	-	128	121	2	-	123
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	55	4	4	63	47	4	4	55
Total revenues	181	6	4	191	168	6	4	178
Expenses with respect to credit losses	29	-	-	29	22	-	-	22
Operating and other expenses								
From outside operating segments	130	1	1	132	123	1	1	125
Inter-segment	(12)	-	-	(12)	(13)	-	-	(13)
Total operating and other expenses	118	1	1	120	110	1	1	112
Pre-tax profit	34	5	3	42	36	5	3	44
Provision for taxes on profit	12	2	1	15	13	2	1	16
Net profit attributable to equity holders of the banking corporation	22	3	2	27	23	3	2	28
Return on capital (net profit as % of average capital)				19.6%				25.0%
Average asset balance	8,622	408	-	9,030	7,423	314	-	7,737
Average balance of liabilities	11,934	408	-	12,342	9,362	314	-	9,676
Average balance of risk assets	6,431	-	-	6,431	5,505	-	-	5,505
Average balance of securities	-	-	14,152	14,152	-	-	11,027	11,027
Average balance of loans to the public	8,550	408	-	8,958	7,189	314	-	7,503
Average balance of deposits from the public	11,919	-	-	11,919	9,648	-	-	9,648
Loans to the public, net (end balance)	8,786	430	-	9,216	7,712	340	-	8,052
Deposits from the public (end balance)	11,804	-	-	11,804	9,818	-	-	9,818
Average balance of other assets managed	141	-	-	141	183	-	-	183
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	120	-	-	120	102	-	-	102
Margin from receiving deposits	8	-	-	8	14	-	-	14
Other	(2)	2	-	-	5	2	-	7
Total interest revenues, net	126	2	-	128	121	2	-	123

Contribution of the small business segment to Group profit in the first quarter of 2015 amounted to NIS 27 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 128 million, compared to NIS 123 million in the corresponding period last year, an increase of 4.1% – primarily due to an increase in business volume for both loans and deposits. The interest spread on receipt of deposits was lower due to the low interest environment. Expenses with respect to credit losses amounted to NIS 29 million, compared to NIS 22 million in the corresponding period last year, an increase of NIS 7 million - primarily attributed to increase in the rate of group-based provision in this segment. Commissions and other revenues increased by NIS 8 million, due to increased business volume in this segment. Operating expenses increased by 7.1%, attributed to the segment share of increase in marketing and advertising expenses, legal counsel expenses and depreciation expenses. Furthermore, operating and other expenses were re-stated. For more information see Note 1.C.1 with regard to adoption of the Supervisor of Banks' directives with regard to employee rights.

Results of the Commercial Banking Segment

	For the three months ended March 31, 2015				For the three months ended March 31, 2014			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	41	-	-	41	47	-	-	47
Inter-segment	-	-	-	-	(6)	-	-	(6)
Total interest revenues, net	41	-	-	41	41	-	-	41
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	12	1	1	14	10	1	2	13
Total revenues	53	1	1	55	51	1	2	54
Expenses with respect to credit losses	8	-	-	8	(1)	-	-	(1)
Operating and other expenses								
From outside operating segments	14	-	-	14	16	-	-	16
Inter-segment	14	-	-	14	15	-	-	15
Total operating and other expenses	28	-	-	28	31	-	-	31
Pre-tax profit	17	1	1	19	21	1	2	24
Provision for taxes on profit	6	-	-	6	8	-	1	9
Net profit attributable to equity holders of the banking corporation	11	1	1	13	13	1	1	15
Return on capital (net profit as % of average capital)				12.7%				15.0%
Average asset balance	4,314	51	-	4,365	4,429	45	-	4,474
Average balance of liabilities	4,822	51	-	4,873	3,778	45	-	3,823
Average balance of risk assets	4,702	-	-	4,702	4,768	-	-	4,768
Average balance of securities	-	-	4,160	4,160	-	-	4,514	4,514
Average balance of loans to the public	4,261	51	-	4,312	4,423	45	-	4,468
Average balance of deposits from the public	4,807	-	-	4,807	3,804	-	-	3,804
Loans to the public, net (end balance)	4,368	51	-	4,419	4,399	100	-	4,499
Deposits from the public (end balance)	4,980	-	-	4,980	3,877	-	-	3,877
Average balance of other assets managed	240	-	-	240	381	-	-	381
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	39	-	-	39	36	-	-	36
Margin from receiving deposits	2	-	-	2	3	-	-	3
Other	-	-	-	-	2	-	-	2
Total interest revenues, net	41	-	-	41	41	-	-	41

Contribution of the commercial banking segment to Group profit in the first quarter of 2015 amounted to NIS 13 million, compared to NIS 15 million in the corresponding period last year. Below are key factors affecting the change in segment contribution: Interest revenues, net amounted to NIS 41 million, similar to the corresponding period last year. Commissions and other revenues were essentially unchanged from the year-ago period. Expenses with respect to credit losses in the current period amounted to an expense of NIS 8 million, compared to a decrease in expense of NIS 1 million in the corresponding period last year. The decrease in expense in the corresponding period is attributed to collection from a few individual 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 primarily due to change in attribution of indirect expenses to this segment.

Results of the Business Banking Segment

	For the three months ended March 31, 2015				For the three months ended March 31, 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	99	-	85	184	53	-	91	144
Inter-segment	27	-	(20)	7	76	-	(27)	49
Total interest revenues, net	126	-	65	191	129	-	64	193
Non-interest financing revenues	4	3	-	7	2	3	-	5
Commissions and other revenues	11	6	44	61	20	4	36	60
Total revenues	141	9	109	259	151	7	100	258
Expenses with respect to credit losses	24	-	(28)	(4)	(23)	-	(9)	(32)
Operating and other expenses								
From outside operating segments	51	1	7	59	41	2	7	50
Inter-segment	17	-	4	21	15	-	4	19
Total operating and other expenses	68	1	11	80	56	2	11	69
Pre-tax profit	49	8	126	183	118	5	98	221
Provision for taxes on profit	18	3	46	67	43	2	36	81
Net profit (loss) attributable to equity holders of the banking corporation	31	5	80	116	75	3	62	140
Return on capital (net profit as % of average capital)				13.8%				18.8%
Average asset balance	18,579	-	8,139	26,718	17,017	-	8,000	25,017
Average balance of liabilities	43,743	-	2,832	46,575	41,183	-	2,597	43,780
Average balance of risk assets	18,296	-	20,190	38,486	18,173	-	19,197	37,370
Average balance of securities	-	77,862	-	77,862	-	64,541	-	64,541
Average balance of loans to the public	14,557	-	7,920	22,477	14,487	-	7,930	22,417
Average balance of deposits from the public	43,732	-	2,756	46,488	40,344	-	2,503	42,847
Loans to the public, net (end balance)	14,349	-	7,952	22,301	14,450	-	7,945	22,395
Deposits from the public (end balance)	44,782	-	2,964	47,746	42,316	-	2,478	44,794
Average balance of other assets managed	1,210	-	483	1,693	187	-	29	216
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	101	-	64	165	100	-	55	155
Margin from receiving deposits	14	-	2	16	21	-	3	24
Other	11	-	(1)	10	8	-	6	14
Total interest revenues, net	126	-	65	191	129	-	64	193

Contribution of the business banking segment to Group profit in the first quarter of 2015 amounted to NIS 116 million, compared to NIS 140 million in the corresponding period last year - a decrease of NIS 24 million.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sub-segment increased in the first quarter of 2015 by NIS 18 million, or 29%, over the corresponding period last year. Interest revenues, net amounted to NIS 65 million, compared to NIS 64 million in the corresponding period last year - an increase of 1.6%, primarily attributed to increase in lending spreads. Expenses with respect to credit losses amounted to a decrease in expense of NIS 28 million, compared to a decrease in expense of NIS 9 million in the corresponding period last year. The decrease in expenses in both these periods is attributed to collection of debt previously written-off. Commissions and other revenues increased by NIS 8 million. The increase in commissions and other revenues is due to increase in financing commissions for closed projects. Operating and other expenses were essentially unchanged.

Contribution of business banking excluding construction and real estate decreased by NIS 42 million compared to the corresponding period last year. Total financing revenues (interest and non-interest) attributed to business banking, excluding construction and real estate, decreased by NIS 1 million year over year. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, amounted to NIS 24 million, compared to a decrease in expense amounting to NIS 23 million in the corresponding period last year. Expenses in the current period are primarily due to changes in group-based provision attributed to business banking excluding real estate. Commissions and other revenues decreased by NIS 7 million compared to the corresponding period last year, attributed to commissions from financing business.

Total operating and other expenses attributed to business banking, excluding construction and real estate, increased by 19.0% compared to the corresponding period last year. The increase is attributed to the segment's share of increase in marketing and advertising expenses, legal counsel expenses and depreciation expenses.

Results of the Financial Management Segment

	For the three months ended March 31, 2015			For the three months ended March 31, 2014		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	232	-	232	(78)	-	(78)
Inter-segment	(377)	-	(377)	(26)	-	(26)
Total interest revenues, net	(145)	-	(145)	(104)	-	(104)
Non-interest financing revenues	115	2	117	72	2	74
Commissions and other revenues	27	12	39	26	12	38
Total revenues	(3)	14	11	(6)	14	8
Expenses with respect to credit losses	1	-	1	2	-	2
Operating and other expenses						
From outside operating segments	83	1	84	78	1	79
Inter-segment	3	-	3	4	-	4
Total operating and other expenses	86	1	87	82	1	83
Pre-tax profit (loss)	(90)	13	(77)	(90)	13	(77)
Provision for taxes on profit (loss)	(33)	5	(28)	(33)	5	(28)
After-tax profit (loss)	(57)	8	(49)	(57)	8	(49)
Share in net profits of associates, after tax	(1)	-	(1)	1	-	1
Net profit (loss):						
Before attribution to non-controlling interest	(58)	8	(50)	(56)	8	(48)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	(58)	8	(50)	(56)	8	(48)
Return on capital (net profit as % of average capital)			-			-
Average asset balance	42,490	-	42,490	36,629	-	36,629
Of which: Investments in associates	45	-	45	60	-	60
Average balance of liabilities	45,201	-	45,201	43,149	-	43,149
Average balance of risk assets	5,854	-	5,854	5,015	-	5,015
Average balance of provident and mutual fund assets	95,690	-	95,690	72,647	-	72,647
Average balance of securities	-	84,938	84,938	-	68,306	68,306
Average balance of deposits from the public	14,586	-	14,586	16,899	-	16,899
Deposits from the public (end balance)	13,078	-	13,078	18,566	-	18,566
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	(145)	-	(145)	(104)	-	(104)
Total interest revenues, net	(145)	-	(145)	(104)	-	(104)

Contribution of the financial management segment to Group profit in the first quarter of 2015 amounted to a loss of NIS 50 million, compared to a loss of NIS 48 million in the corresponding period last year. Below are key factors affecting the change in segment contribution: Total financing revenues (interest revenues, net and non-interest financing revenues) decreased by NIS 2 million. For more analysis of current financing operations, including the effect of fair value and other effects, effect of the Consumer Price Index and gain from realized debentures attributed to this segment - see analysis of evolution of financing revenues from current operations in chapter "Profit and profitability". Commissions and other revenues were essentially unchanged from the year-ago period. Operating and other expenses increased by NIS 4 million, attributed to the segment share of increase in marketing and advertising expenses, legal counsel expenses and depreciation expenses. Expenses with respect to credit losses were essentially unchanged from the year-ago period.

Product operations

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

	For the three months ended March 31, 2015			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	5	2	-	7
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	33	4	1	38
Total revenues	38	6	1	45
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	5	1	-	6
Pre-tax profit	33	5	1	39
Provision for taxes on profit	13	2	-	15
Net profit	20	3	1	24

	For the three months ended March 31, 2014			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	5	2	-	7
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	34	4	1	39
Total revenues	39	6	1	46
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	5	1	-	6
Pre-tax profit	34	5	1	40
Provision for taxes on profit	12	2	-	14
Net profit	22	3	1	26

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

	For the three months ended March 31, 2015						
	House-holds	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consoli-dated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	1	-	-	-	3	2	6
Commissions and other revenues	54	5	4	1	6	12	82
Total revenues	55	5	4	1	9	14	88
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	17	-	1	-	1	1	20
Pre-tax profit	38	5	3	1	8	13	68
Provision for taxes on profit	14	2	1	-	3	5	25
Net profit	24	3	2	1	5	8	43

	For the three months ended March 31, 2014						
	House-holds	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consoli-dated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	-	-	3	2	7
Commissions and other revenues	46	5	4	2	4	12	73
Total revenues	48	5	4	2	7	14	80
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	17	-	1	-	2	1	21
Pre-tax profit	31	5	3	2	5	13	59
Provision for taxes on profit	11	2	1	1	2	5	22
Net profit	20	3	2	1	3	8	37

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 set forth 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. - specialized 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 its representation 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):

	Households	Private banking	Business banking	Financial management	Total
	For the three months ended March 31, 2015				
	Unaudited amounts (NIS in millions)				
Interest revenues, net	1	13	15	7	36
Non-interest financing revenues	-	-	(1)	2	1
Commissions and other revenues	-	16	2	-	18
Total revenues	1	29	16	9	55
Reduced expenses with respect to credit losses	-	1	-	-	1
Operating and other expenses	1	18	11	2	32
Pre-tax profit	-	10	5	7	22
Provision for taxes on profit	-	4	2	3	9
Net profit	-	6	3	4	13

	Households	Private banking	Business banking	Financial management	Total
	For the three months ended March 31, 2014				
	Unaudited amounts (NIS in millions)				
Interest revenues, net	1	12	12	6	31
Non-interest financing revenues	-	-	-	-	-
Commissions and other revenues	-	11	2	1	14
Total revenues	1	23	14	7	45
Reduced expenses with respect to credit losses	-	1	-	-	1
Operating and other expenses	1	16	10	2	29
Pre-tax profit	-	6	4	5	15
Provision for taxes on profit	-	2	2	4	8
Net profit	-	4	2	1	7

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 their development.

Total deposits from the public for the Group as of March 31, 2015 amounted to NIS 153.0 billion, compared to NIS 152.4 billion at end of 2014. Deposits from the public in the CPI-linked segment as of March 31, 2015 decreased by 1.3% over the end of 2014; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 3.8%; and deposits in the NIS-denominated, non-CPI-linked segment decreased by 0.4%. For details, see chapter "Development of balance sheet items" above.

As of March 31, 2015, the balance of the three largest depositor groups at the Bank Group amounted to NIS 12.5 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 26-39), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 17,380 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.

The proceeds from this issuance were deposited at the Bank under terms similar to those of the issuance.

Complex capital instruments

All of the Bank's complex capital instruments (Series A) issued and listed for trading considered upper Tier II capital for maintaining minimum capital ratio amounted to NIS1,702 million par value as of March 31, 2015, issued for consideration amounting to NIS 1,614 million.

The revalued balance of the complex capital instruments as of March 31, 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 has 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, so as to reflect one rank below the issuer rating, i.e. rated ilAA+.

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

On December 17, 2013, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 with Negative rating outlook.

On October 21, 2014, Moody's rating agency maintained the Bank's long-term deposit rating at A2 with Negative rating outlook.

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 Regulations, 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 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 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 troubled 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
Equity positions in bank portfolio	Quantitative disclosure	Risk Management chapter
Market risk, liquidity risk, interest risk in bank portfolio	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 /en>> financial reports

Application scope

Provisions of Proper Conduct of Banking Business Regulations 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 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 stated in Proper Conduct of Banking Business regulation 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operating risk and market risk.

Since early 2013, the Bank has been using advanced IRB models to monitor risk levels in the mortgage portfolio, including carrying out stress testing - in addition to the mortgage portfolio monitoring, management and measurement mechanism, which is based on review of the effect of risk factor relevant for the mortgage portfolio, including in times of changes to macro-economic conditions, on the portfolio quality. 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.

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 the 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):

	As of March 31, 2015		As of March 31, 2014		As of December 31, 2014	
Exposure group	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Sovereign debt	704	88	569	71	806	101
Public sector entity debt	394	49	451	56	407	51
Banking corporation debt	1,354	169	1,219	152	1,239	155
Corporate debt	41,556	5,195	40,004	5,001	41,022	5,128
Debt secured by commercial real estate	2,435	304	2,199	275	2,256	282
Retail exposure to individuals	11,261	1,408	10,667	1,333	11,136	1,392
Loans to small businesses	4,784	598	3,928	491	4,444	556
Residential mortgages	49,976	6,247	45,950	5,744	49,738	6,217
Other assets	4,654	582	4,227	528	4,357	545
Total	117,118	14,640	109,214	13,651	115,405	14,427

(1) 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):

	As of March 31, 2015		As of March 31, 2014		As of December 31, 2014	
Exposure group	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(2)
Market risk	871	109	894	112	1,020	128
CVA risk with respect to derivatives(1)	797	100	848	106	886	111
Operating risk	7,435	929	7,262	908	7,383	923
Total	9,103	1,138	9,004	1,126	9,289	1,162
Total risk assets	126,221	15,778	118,218	14,777	124,694	15,589

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

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

	As of March 31, 2015	As of March 31, 2014	As of December 31, 2014
Tier I capital	11,569	10,485	11,370
Tier II capital	4,485	4,852	4,883
Total capital	16,054	15,337	16,253

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

	Ratio of capital to risk elements		
	As of March 31, 2015	As of March 31, 2014	As of December 31, 2014
Ratio of Tier I capital to risk elements	9.17	(1)8.87	(1)9.12
Ratio of total capital to risk elements	12.72	(1)12.97	(1)13.03
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	(2)9.00	(2)9.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	(2)12.50	(2)12.50

(1) Excluding effect of adoption of US GAAP with regard to employee rights, which came into effect on January 1, 2015.
(2) As from January 1, 2015.

Risk exposure and assessment there of

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policies, in various aspects, are designed to support achievement of the Group's business goals while limiting exposure to such risk, 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 thereof. This is after the Bank's 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 the Bank of Israel's Proper Conduct of Banking Business Regulation 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 regulations effective as from January 2014 (except for Regulations 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 itemized in Proper Conduct of Banking Business regulations 342 and 221. For further details, see the chapter on Legislation and Supervision of Bank Group Operations. 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 Regulation 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. Thus, 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 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 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 the 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 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 are 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 the Bank's clients operate.

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 March 31, 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)	20,754	291	2,445	29,086	2,479	15,109	7,393	97,494	-	175,051	174,646
Securities(4)	12,633	-	345	66	-	-	-	-	-	13,044	13,082
Derivatives(5)	35	480	1,386	2,490	-	34	12	-	-	4,437	4,172
Other off-balance-sheet exposures	43	200	36	42,832	676	10,776	2,797	7,482	-	64,842	63,984
Other assets(6)	-	-	-	-	-	-	-	-	4,472	4,472	4,429
Total	33,465	971	4,212	74,474	3,155	25,919	10,202	104,976	4,472	261,846	260,312

											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)	-	-	-	-	-	-	-	-	4,386	4,386	4,310
Total	35,742	1,228	3,904	72,884	2,847	25,619	9,844	102,324	4,386	258,778	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 equity basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the equity 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[1]:

					As of March 31, 2015
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total[2]
Loans[3]	51,417	26,493	97,012	129	175,051
Securities[4]	847	8,498	3,699	-	13,044
Derivatives[5]	3,078	969	390	-	4,437
Other off-balance-sheet exposures	55,073	8,159	1,610	-	64,842
Other assets[6]	2,630	-	128	1,714	4,472
Total	113,045	44,119	102,839	1,843	261,846

					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	1,754	4,386
Total	111,316	43,616	101,968	1,878	258,778

(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 equity basis and investment in securities in the negotiable portfolio.

(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.

(6) Excludes derivatives and balances deducted from the equity 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 March 31, 2015											
	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deducted from equity	Total
Rated exposures:												
Sovereign debt	29,755	3,363	-	35	-	248	58	-	-	33,459	-	33,459
Public sector entity debt	-	-	-	971	-	-	-	-	-	971	-	971
Banking corporation debt	-	2,913	-	1,205	-	81	-	-	-	4,199	-	4,199
Corporate debt	-	20	-	199	-	-	-	-	-	219	-	219
Total	29,755	6,296	-	2,410	-	329	58	-	-	38,848	-	38,848
Non-rated exposures:												
Banking corporation debt	-	6	-	12	-	-	-	-	-	18	-	18
Corporate debt	-	-	-	-	-	74,084	117	-	-	74,201	-	74,201
Debt secured by commercial real estate	-	-	-	-	-	3,139	-	-	-	3,139	-	3,139
Retail exposure to individuals	-	-	-	-	25,777	54	79	-	-	25,910	-	25,910
Loans to small businesses	-	-	-	-	10,084	41	49	-	-	10,174	-	10,174
Residential mortgages	-	-	53,590	15,404	34,365	1,421	196	-	-	104,976	-	104,976
Other assets	1,286	-	-	-	-	2,188	53	942	4	4,473	87	4,560
Total	1,286	6	53,590	15,416	70,226	80,927	494	942	4	222,891	87	222,978
Total	31,041	6,302	53,590	17,826	70,226	81,256	552	942	4	261,739	87	261,826

(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 equity	Total
												As of March 31, 2015
Rated exposures:												
Sovereign debt	30,268	3,367	-	35	-	21	-	-	-	33,691	-	33,691
Public sector entity debt	276	-	-	914	-	-	-	-	-	1,190	-	1,190
Banking corporation debt	-	2,904	-	1,206	-	81	-	-	-	4,191	-	4,191
Corporate debt	-	20	-	199	-	-	-	-	-	219	-	219
Total	30,544	6,291	-	2,354	-	102	-	-	-	39,291	-	39,291
Non-rated exposures:												
Banking corporation debt	-	145	-	140	-	-	-	-	-	285	-	285
Corporate debt	-	-	-	-	-	62,208	110	-	-	62,318	-	62,318
Debt secured by commercial real estate	-	-	-	-	-	2,805	-	-	-	2,805	-	2,805
Retail exposure to individuals	-	-	-	-	23,662	28	79	-	-	23,769	-	23,769
Loans to small businesses	-	-	-	-	8,050	32	43	-	-	8,125	-	8,125
Residential mortgages	-	-	53,590	15,404	34,160	1,420	195	-	-	104,769	-	104,769
Other assets	1,286	-	-	-	-	2,188	53	942	4	4,473	87	4,560
Total	1,286	145	53,590	15,544	65,872	68,681	480	942	4	206,544	87	206,631
Total exposure	31,830	6,436	53,590	17,898	65,872	68,783	480	942	4	245,835	87	245,922

Before credit risk mitigation

As of December 31, 2014												
	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deducted from equity	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	-	-	-	-	2,183	54	820	5	4,386	87	4,473
Total	1,324	25	54,546	13,378	64,241	82,636	617	820	5	217,592	87	217,679
Total	32,986	6,543	54,546	15,870	64,241	83,005	617	820	5	258,633	87	258,720

(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 December 31, 2014											
	0%	20%	35%	50%	75%	100%	150%	250%	1250%	Gross credit exposure	Deducted from equity	Total
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	-	-	-	-	2,183	54	820	5	4,386	87	4,473
Total	1,324	189	54,546	13,497	59,876	70,878	596	820	5	201,731	87	201,818
Total exposure	34,085	6,703	54,546	15,664	59,876	70,983	596	820	5	243,278	87	243,365

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Regulation 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).
As of March 31, 2015, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such business:

- Business with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for the 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 flow 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. Terms and conditions 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 Criteria model and then individual review of each borrower who meets the threshold criteria. Such borrowers are reviewed by a forum which includes representatives from the Business Division, the Risk Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

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	March 31, 2015	March 31, 2014	December 31, 2014
Construction and real estate	188	181	228
Communications and computer services	89	-	-
Total	277	181	228

Credit to leveraged companies (NIS in millions):

	On-balance sheet credit risk as of		
Economic sector of borrower	March 31, 2015	March 31, 2014	December 31, 2014
Construction and real estate	21	426	270
Commerce	185	182	181
Industry	-	189	-
Financial services	39	178	41
Information and Communication	n	-	-
Total	317	975	492

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

			As of March 31, 2015
External credit rating	On-balance sheet credit risk(3)	Off balance sheet credit risk(4)	Current credit exposure
AAA to AA-	678	-	678
A+ to A-	2,443	2	2,445
BBB+ to BBB-	-	-	-
+BB to B-	-	11	11
Lower than B-	-	-	-
Unrated	-	-	-
Total credit exposure to foreign financial institutions	3,121	13	3,134

			As of March 31, 2014
External credit rating	On-balance sheet credit risk(3)	Off balance sheet credit risk(4)	Current credit exposure
AAA to AA-	834	-	834
A+ to A-	1,487	2	1,489
BBB+ to BBB-	2	-	2
+BB to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	2,327	12	2,339

			As of December 31, 2014
External credit rating	On-balance sheet credit risk(3)	Off balance sheet credit risk(4)	Current credit exposure
AAA to AA-	572	-	572
A+ to A-	2,302	2	2,304
BBB+ to BBB-	-	-	-
+BB to B-	-	11	11
Lower than B-	-	-	-
Unrated	-	-	-
Total credit exposure to foreign financial institutions	2,874	13	2,887

As of March 31, 2015, March 31, 2014 and December 31, 2014 there was no troubled credit risk, net.
Troubled credit risk – credit risk which is impaired, inferior or under special supervision, except for credit risk with respect to individuals.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Conduct of Banking Business Regulation 313 (excluding off-balance sheet derivatives).

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 8 to the financial statements.

Some of the exposures listed in the above table are included under Management Discussion - Addendum C - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Discussion also includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to derivative instruments. Future transactions, weighted in accordance with rules stipulated in Proper Conduct of Banking Business regulation 313, are included under Management Discussion as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, *inter alia*, the risk appetite - i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for that 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 that 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 those 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 mentioned 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 Bank exposure to sovereigns 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 from 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 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 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 deciles, 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 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 Regulation 350 by the Bank of Israel.

On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Regulation 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 March 31, 2015).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of

March 31, 2015 was 55.5%, 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 98.6 billion, some 92% 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 0.5 billion, or only 0. 5% 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 prescribed by 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 3.5 billion, or 45.3%, 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 2.2% for loans granted 1-2 years ago, 0.7% for loans granted 3-12 months ago and 0.4% for loans granted in the first 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 29.2%. Some 76% of the Bank's mortgage portfolio was granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.9%); Some 18% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.6%). Some 5% of the mortgage portfolio was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.9%), and only 1% was 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 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 1.75%-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 is expected to 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 10.5 billion, or only 10.6% 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 May 15, 2014. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Loan amount

Total loans extended by the Bank with an original amount higher than NIS 2 million, amounted to NIS 4.1 billion as of March 31, 2015, or only 4.1% of the Bank's housing loan portfolio.

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

LTV ratio	Repayment as percentage of regular income	Loan age[(2)] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	3,046	7,880	8,882	14,318	7,937	2,050	44,113
	35%-50%	398	1,390	2,150	4,642	1,945	452	10,977
	50%-80%	4	17	404	1,732	808	192	3,157
	Over 80%	2	-	43	150	139	45	379
60%-75%	Up to 35%	1,669	3,844	5,441	9,447	4,063	606	25,070
	35%-50%	196	513	989	2,723	1,093	183	5,697
	50%-80%	-	4	120	790	389	78	1,381
	Over 80%	-	-	1	46	61	14	122
Over 75%	Up to 35%	18	86	318	2,249	1,812	1,243	5,726
	35%-50%	1	5	77	488	459	458	1,488
	50%-80%	-	-	7	92	176	155	430
	Over 80%	-	-	-	17	30	35	82
Total		5,334	13,739	18,432	36,694	18,912	5,511	98,622
Of which:								
Loans granted with original amount over NIS 2 million		172	507	756	1,958	639	27	4,059
Percentage of total housing loans		3.2%	3.7%	4.1%	5.3%	3.4%	0.5%	4.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,253	3,777	5,462	10,762	9,605	422	31,281
CPI-linked[(3)]		13	109	260	3,140	3,892	1,344	8,758
In foreign currency[(3)]		78	347	623	2,566	604	386	4,604
Total		1,344	4,233	6,345	16,468	14,101	2,152	44,643
Non-linked loans at prime lending rate, as percentage of total housing loans		23.5%	27.5%	29.6%	29.3%	50.8%	7.7%	31.7%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.2%	0.8%	1.4%	8.6%	20.6%	24.4%	8.9%
Loans with LTV over 75% as percentage of total housing loans		0.4%	0.7%	2.2%	7.8%	13.1%	34.3%	7.8%

(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 Conduct of Banking Business Regulation 314, as of March 31, 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	11	11	11	207	240	74	319
Of which: Balance of provision for interest[1]	-	-	-	1	99	100	6	106
Recorded debt balance	325	387	158	67	177	789	205	1,319
Balance of provision for credit losses [2]	-	-	22	31	143	196	88	284
Debt balance, net	325	387	136	36	34	593	117	1,035

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) In conformity with Public Reporting Regulations, 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 March 31, 2015
		Exposure covered by guarantees[2]			
	Gross credit exposure[1]	Amounts deducted	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	33,459	(276)	516	(8)	33,691
Public sector entity debt	971	-	276	(57)	1,190
Banking corporation debt	4,217	(9)	268	-	4,476
Corporate debt	74,420	(559)	-	(11,324)	62,537
Debt secured by commercial real estate	3,139	(4)	-	(330)	2,805
Retail exposure to individuals	25,910	(1)	-	(2,140)	23,769
Loans to small businesses	10,174	(211)	-	(1,838)	8,125
Residential mortgages	104,976	-	-	(207)	104,769
Other assets	4,473	-	-	-	4,473
Total	261,739	(1,060)	1,060	(15,904)	245,835

(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 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	4,386	-	-	-	4,386
Total	258,633	(1,388)	1,388	(15,355)	243,278

(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 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 financial derivatives 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 financial derivatives, 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 operates in credit derivatives (CDS) in its negotiable 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 derivatives (NIS in millions):

	As of March 31, 2015					
	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives after impact of add-on factor	137	1,320	486	1	37	1,981
Positive fair value, gross, of derivatives[1]	2,030	2,873	682	-	-	5,585
Effect of offset agreements	(1,547)	(1,482)	(100)	-	-	(3,129)
Total exposure with respect to derivatives	620	2,711	1,068	1	37	4,437
Collateral with respect to derivatives (before safety factors)	(112)	(904)	(669)	(1)	-	(1,686)
Impact of safety factors on collateral	41	340	198	-	-	579
Total current credit exposure after credit risk mitigation	549	2,147	597	-	37	3,330

	As of December 31, 2014					
	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives 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 derivatives	517	2,680	708	1	-	3,906
Collateral with respect to derivatives (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 negotiable and public shares amounting to NIS 2 million, and investment in non-public shares amounting to NIS 147 million.

	As of March 31, 2015	
	Fair value	Capital requirement(1)
Shares	64	8
Venture capital / private equity funds	85	11
Total equity investment in bank portfolio	149	19

	As of December 31, 2014	
	Fair value	Capital requirement(1)
Shares	65	8
Venture capital / private equity funds	91	11
Total equity investment in bank portfolio	156	19

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

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 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 (Regulation 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 Conduct of Banking Business regulation 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 impact of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

						March 31, 2015
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(1,502)	515	124	(8)	(4)	(875)
2% decrease	1,682	(714)	(115)	9	4	866

						March 31, 2014
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(303)	(291)	138	(11)	(5)	(472)
2% decrease	358	220	(23)	6	7	568

						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 flow forecast for the Bank, assumptions with regard to 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 uses a new 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.

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 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 Quarter 2015	First Quarter 2014	All of 2014
At end of period	310	184	286
Maximum value during period	320 (FEB)	184 (MAR)	288 (NOV)
Minimum value during period	303 (JAN)	161 (JAN)	162 (JAN)

Back-testing of the historical-analytic VaR model one case in which the daily loss exceeded the forecasted VaR value. The exception, amounting to NIS 5.5 million, was primarily due to a sharp increase in the CPI-linked curve, as a result of the CPI announcement and lower inflationary expectations. This number of cases is within the criteria specified by the Basel Committee and therefore the Bank's VaR model is valid.

Below are exceptions during the reviewed period (NIS in millions):

Exception date	Exception size
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	300.9	150.4	(150.4)	(300.9)	439.2	(25.9)
Dollar	4.9	3.5	(3.9)	(10.5)	2.7	(2.0)
Pound Sterling	1.9	0.4	(1.0)	(2.6)	0.2	(0.6)
Yen	1.2	0.5	0.0	0.3	0.5	0.0
Euro	2.4	1.1	2.9	6.2	0.7	1.4
Swiss Franc	1.2	0.4	0.1	0.4	2.1	0.1

(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
March 31, 2015						
Financial assets (1)	120,701	54,164	14,356	3,445	2,223	194,889
Amounts receivable with respect to financial derivatives(3)	93,858	3,520	84,969	15,470	7,034	204,851
Financial liabilities (1)	(106,370)	(41,366)	(28,693)	(5,463)	(3,084)	(184,976)
Amounts payable with respect to financial derivatives(3)	(103,661)	(12,381)	(70,599)	(13,524)	(6,252)	(206,417)
Total	4,528	3,937	33	(72)	(79)	8,347
December 31, 2014						
Financial assets (1)	117,158	54,627	13,908	4,133	1,815	191,641
Amounts receivable with respect to financial derivatives(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 derivatives(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 %
March 31, 2015								
Change in interest rates:								
Concurrent immediate increase of 1%	4,162	4,218	54	(87)	(80)	8,267	(80)	(1.0)
Concurrent immediate increase of 0.1%	4,518	3,962	35	(73)	(79)	8,363	16	0.2
Concurrent immediate decrease of 1%	4,848	3,657	16	(56)	(77)	8,388	41	0.5
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 derivatives and fair value of off-balance sheet financial instruments.
Note that in the calculation of the fair value of financial instruments, as described 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 derivatives, discounted using interest rates used for calculation of the fair value.

(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 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 moves 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 negotiable portfolio. Capital requirements with respect to specific risk are intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. This requirement relates to instruments in the negotiable 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 March 31, 2015			As of December 31, 2014		
	Capital requirements(1)			Capital requirements(1)		
Risk element(2)	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk(3)	-	62	62	-	80	80
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	47	47	-	48	48
Total market risk	-	109	109	-	128	128

(1) The capital requirement was calculated at 12.5%.
(2) 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.
(3) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

Liquidity risk results from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed 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.

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The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses regulation 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, for a one-month horizon, 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. 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, as well as restrictions on various benchmarks related to depositor concentration. The Bank holds liquid means, including cash, current account and deposits with the Bank of Israel and with the Federal Reserve and a high-quality liquid debenture portfolio which may be immediately realized. There is also daily monitoring of internal and external indicators which may point to a potential liquidity crunch.

As from April 1, 2015, the Bank applies Proper Conduct of Banking Business regulation 221 "Regulatory liquidity coverage ratio", which became effective. 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. This regulation is in addition to liquidity risk management using internal models, as stipulated by Proper Conduct of Bank Businesses Regulation no. 342, as described above.

The Bank's liquidity management is proactive and strict, both in using detailed models at 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 meets to discuss the liquidity situation and 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.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policy document, which includes 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 limitations and targets for concentration and resource composition, internal and external key risk indicators which indicate potential liquidity issues for the Bank or for the banking system and a detailed emergency plan for handling a liquidity crisis, including potential means under each scenario type and the estimated time for execution.

There were no deviations from the Board of Directors' limitations recorded in the first quarter of 2015.

For details of 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.

Operating risk

Basel I directives 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 Regulation 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 Conduct of Banking Business regulations 357 and 361, the Bank appointed a Cyber and Information Security Manager, who reports to the Manager, Risk Control Division. 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 are 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 their currency, 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-enterprise 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 Conduct of Banking Business Regulation 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 risk level and exposure, with attention to the different lines of business at the Bank.

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these 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 March 16, 2015, the Supervisor of Banks issued directives to banking corporations with regard to required action for management of risk arising from cross-border transactions by clients (cross-border risk). This was due to increase in such risk and proceedings brought by various regulators around the world against financial institutions. For more information see chapter “Legislation and supervision of Bank Group operations”.

The person responsible for management of cross-border risk at the Bank is the Chief Risk Officer – the Manager, Risk Control Division, through the Chief Compliance Officer who reports there to. On this matter, a Cross-Border Forum headed by the Chief risk officer was established and authorized to discuss issues related to this matter and to make binding decisions for mitigating this risk, setting risk management policy, including review of appointment of officers at Bank units and review of operating procedures and processes. Bank management has specified rules for identifying clients with a foreign affiliation and for reduction of business with such clients. Concurrently, this risk management process is also carried out by Bank affiliates overseas.

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	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	
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(1)	Low	Manager, Marketing, Promotion and Business Development Division
Regulatory risk	Low	Management, each in their own domain
Strategic-business risk	Low	President & CEO

(1) 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 2014.

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 their direction (volatility).

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 co-ordinate application of these provisions, reporting directly to management and providing updates to management and to the Board of Directors on the progress made, at a frequency to be determined.
The steps to be taken with regard to clients of the banking corporation in the course of such preparations would be taken with due consideration to the bank's obligations to its clients and after diligent review of the circumstances.
The letter also stipulates the cases in which a refusal to provide bank services would be considered a reasonable refusal with regard to the Banking Act (Customer Service), 1981.

On June 30, 2014, an international agreement for implementation of FATCA directives was signed by the State of Israel and by US authorities, in 1IGA format, which governs, *inter alia*, the transfer of information to US tax authorities, through the Israeli Tax Authority - which would receive information from financial institutions in Israel. The agreement also stipulates concessions, including exemption from reporting for various institutions or for accounts whose attributes indicate very low risk of tax evasion. The statutory provisions in Israel for application of this agreement have yet to be enacted by the State of Israel.
The Bank has been implementing the relevant statutory provisions in accordance with schedules specified in 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 the 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-à-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 operating in compliance with the Supervisor’s directives and schedules and has revised its policy accordingly.

Application of the Supervisor’s directives had 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 from 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 stipulated 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 (hereafter - "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 late 2015 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 described 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 Ordinance (Early repayment commissions) (Amendment), 2014

On August 27, 2014, the Governor of the Bank of Israel issued an amendment to the Ordinance, 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 Ordinance 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 Ordinance became effective on February 23, 2015. The Bank applies the provisions of the amendment to the Ordinance. Application of this amendment to the Ordinance has no material impact on the Bank's financial statements.

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

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

The expansion ordinance 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 ordinance stipulates that provisions of the general collective agreement would apply to any employer with a staff of 100 or more employees.

According to the Ordinance, the employer should verify that as from the 1st anniversary of issuing the Ordinance, at least 2% (and as from its 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 Ordinance and for optimal integration of such persons in the workplace.
The Bank is acting to implement provisions of the Ordinance. Application of this ordinance 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 Investment Regulations (Calculating returns) (Amendment), 2014
- Mutual Investment Regulations (Reports) (Amendment), 2014
- Mutual Investment Regulations (Fund classification for advertising) (Amendment), 2014
- Mutual 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 to a bank CD for a term longer than one year and an agreement concerning telephone orders. See also Proper Conduct of Banking Business regulation 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 applies the amendments in effect and is preparing to apply all other amendments. Application of these amendments has no material impact on the Bank's financial statements.

Minimum Wage Act (Increase in Minimum Wage – Transition Provisions), 2015

In January 2015, the Minimum Wage Act (Increase in Minimum Wage – Transition Provisions), 2015 was published, whereby the minimum wage would be revised 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 requirements of this Act. Application of the Act has no (and is not expected to have) 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 turnover 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 applies the amendments in effect and is preparing to apply all other amendments. Application of these amendments is not expected to have any material impact on the Bank's financial statements.

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 reports 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 regulation comes into effect gradually, so that the financial statements for 2015 and thereafter would be published 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 according to the specified schedule.

Reporting on operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Regulation 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. See Note 1 to the financial statements for additional information.

"Fast track campaign for refinancing directed loans"

In December 2014, the Supervisor of Banks proposed that banks would join a voluntary fast track campaign to refinance directed loans, as defined in the Banking Ordinance (Early repayment commission) to borrowers who meet the conditions proposed by the Bank of Israel. The campaign 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 campaign through August 31, 2015. The Bank has joined this campaign and is properly implementing it. For more information see chapter "Household segment" on the financial statements as of December 31, 2014.

Revised layout of public reporting by banking corporations

On April 28, 2015, the Supervisor of Banks issued a circular concerning the revision of layout of public reporting by banking corporations and credit card companies. The directives in this circular are designed to improve public reporting by making information in reports useful and accessible to the public: increase uniformity in the banking system in terms of report layout and formulating a public reporting layout based on leading presentation practices of leading banks in the USA and in Europe. For more information see Note 1.D.4 to the financial statements.

Proper Conduct of Banking Business Regulations

Proper Conduct of Banking Business Regulation 311 concerning "Management of credit risk"

On December 23, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business Regulation 311 concerning management of credit risk. The regulation is primarily based on Basel principles dated September 2000. This regulation 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 regulation 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 regulation 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 Regulation 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 Regulation 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 amends provisions with regard to credit risk (amendment to Regulation 311), which stipulates that banking corporations should set, as part of their credit policy, internal limits on leveraged loans (as set forth in Regulation 327 concerning leveraged loans) and loans provided to borrowers who are more highly leveraged than typical for the sector, subject to materiality threshold and to calculation of the leverage level, as determined by the banking corporation. Furthermore, banking corporations which organize syndicated loans are required to refer in their credit policy to the transaction pipeline and are also required to obtain independent assessment of the risk associated with the loan in which they share – as if they were the initiator. The update also includes updates with regard to review of leveraged loans and inclusion of debt waiving processes. 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 Regulation 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 regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 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 Conduct of Banking Business Regulation 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. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 403 "Non-banking benefits for clients"

On July 6, 2014, the Supervisor of Banks issued a regulation concerning non-banking benefits for clients. This regulation specifies rules and definitions for the distinction between banking benefits and non-banking benefits. The regulation 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 regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business regulation 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 regulation 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.

The Bank is preparing to implement this regulation.

Proper Conduct of Banking Business Regulation 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 Conduct of Banking Business Regulation 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 specified 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 Conduct of Banking Business

Regulation 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 Conduct of Banking Business Regulation 418 "Opening accounts online"

On July 15, 2014, the Supervisor of Banks issued a regulation concerning opening accounts online. This regulation 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 regulation is effective as from its issue date, but any intention to offer such an option 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 Regulation 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 regulation. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 439 concerning "Standing orders"

On September 1, 2014, the Supervisor of Banks issued a circular concerning "Standing orders" (update to Proper Conduct of Banking Business Regulation 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 regulation are effective as from October 1, 2015. The Bank is preparing to implement this regulation.
Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 422 "Opening a current account with a credit balance and management thereof"

On September 26, 2014, the Supervisor of Banks issued a regulation concerning opening a current account with a credit balance and its management. The regulation 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 regulation are in effect as of the issue date and as of early September 2014. The section of this regulation 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 regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulations no. 221 "Liquidity coverage ratio" and Proper Conduct of Banking Business Regulations no. 342 "Liquidity risk management"

On September 28, 2014, the Supervisor of Banks issued Proper Conduct of Banking Business Regulation 221 "Liquidity coverage ratio".

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

This ratio is designed to improve the ability of liquidity risk profiles of banking corporations to withstand an extreme one-month liquidity scenario. The Basel III directives specify a framework for calculating the liquidity coverage ratio, designed to create uniformity at the international level.

On the same date, the Supervisor also issued amendments to the Public Reporting Regulations 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 capital adequacy note to the financial statements. Further, on September 30, 2014 the Supervisor issued a Q&A file on this new regulation.

The current Proper Conduct of Banking Business Regulations no. 342 "Liquidity risk management" has been adapted and will apply throughout the transition period, as described below.

Below are highlights of this new Proper Conduct of Banking Business Regulation:

- 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 to be applied for the Bank as well as on a consolidated basis.
The regulation 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 is applying these directives as from April 1, 2015.

Proper Conduct of Banking Business Regulation 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 Conduct of Banking Business Regulation 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 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 preparing to implement this regulation.
Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 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 layout 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 regulation. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 325 "Management of credit facilities in current accounts"

On November 25, 2014, the Supervisor of Banks issued an amendment to the regulation concerning management of credit facilities in current accounts. The amendment to the regulation is designed to increase the amount up to which the bank would not be required to apply provisions of the regulation 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 Regulations. The effective start date of these changes to the regulation is no later than January 1, 2015. The Bank is applying this directive. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Regulation no. 432 "Transfer of activities and closing of client account"

On December 15, 2014, the Supervisor of Banks issued an amendment to the regulation concerning transfer of activities and closing of client accounts. The amendment is designed to simplify the actions required upon closing an account and transferring activities from one bank to another. The regulation 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 regulation 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 would become effective on July 1, 2015. The sections concerning the periodic report pursuant to Regulation no. 425 - which is required by this regulation - would become effective on February 28, 2016. The Bank is preparing to implement this regulation. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 361 concerning "Management of cyber security"

On March 16, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business Regulation concerning management of cyber security. This regulation is designed to emphasize the Supervisor's approach, whereby addressing cyber risk is a cross-organizational issue. The regulation 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 regulation is September 1, 2015. The Bank is preparing to implement this regulation.

Proper Conduct of Banking Business Regulation 218 concerning "Leverage ratio"

On April 28, 2015, the Supervisor of Banks issued the regulation with regard to leverage ratio. The Supervisor of Banks' regulation 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 regulation, the Supervisor of Banks issued an amendment to Public Reporting Regulations with regard to disclosure of leverage ratio, which added disclosures to the Board of Directors' report and to the financial statements.
For more information see Note 1.D.5 to the financial statements.

Proper Conduct of Banking Business Regulation 327 concerning "Management of leveraged loans"

On April 28, 2015, the Supervisor of Banks issued a new regulation 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 regulation specifies the framework for overall risk management for leveraged loans. The provisions of this regulation would apply to loans extended as from January 1, 2016. The Bank is preparing to implement this regulation.

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 directives 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 described 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 assessment 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' directives, 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 charged with 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 directives 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 Conduct of Banking Business Regulations as follows:

Proper Conduct of Banking Business regulation 201 - Introduction, scope and requirement calculation;

Proper Conduct of Banking Business regulation 202 - Supervisory capital;

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

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

Proper Conduct of Banking Business regulation 205 - Handling of securitization transactions;

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

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

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

Pillar 3, which stipulates 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 Conduct of Banking Business regulation 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 deploy 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 compile the next document in late 2015, in conformity with the 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, originated by 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 directive 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 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, 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 Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: “the regulations”).

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

The revised dividend policy is subject to the Bank maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors and as 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 would be 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 Conduct of Banking Business Regulation no. 329, 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 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 about the Board of Directors' resolution with regard to dividend distribution with respect to earnings in the first quarter 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.

Investigation by the US Department of Justice

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, for information about a motion for class action status and for approval of a derivative 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, in their review, attention 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.

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 stated 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 concerning employee rights, the accounting policy was revised – for more information see Notes 1.C.1 and 9 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 on 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 listed 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 described 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, Risk Control Division (CRO); Manager, Manager, Retail Division; relevant sector managers and other credit professionals. The committee discusses classified clients individually. The outcome of such discussion determines the appropriate classification and provision for each client. The committee also discusses group-based provision for various economic sectors. The outcome of this discussion determines 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 Chief Accountant; Manager, Business Division (Credit Risk Officer); Manager, Risk Management Division (CRO); Manager, Finance Division; Chief Legal Counsel; and professional credit staff. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.

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 policies, 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 troubled debt, 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, soh that Board members receive the documents at least three days prior to their discussion by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and an 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 quarter of 2015, the Bank Board of Directors held 5 plenary meetings. During this period there were also 15 meetings of Board committees and one Board member workshop.

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 February 26, 2015, 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's Board of Directors approved the appointment of Mr. Avraham Zeldman as member of the Risk Management Committee and the appointment of Mr. Gideon Sitterman as member of the Board of Directors' Credit Committee. On the same date, Mr. Gideon Sitterman concluded his office as member of the Risk Management Committee.

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 an 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 March 31, 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.

M. Vidman | Eldad Fresher

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Approval date of the financial statements:
Ramat Gan,
May 18, 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 March 31, 2015			For the three months ended March 31, 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	144,936	[7]468	1.30	136,644	[7]902	2.67
Outside of Israel	2,501	25	4.06	2,434	24	4.00
Total	147,437	493	1.34	139,078	926	2.69
Loans to the Government						
In Israel	299	2	2.70	304	3	4.01
Outside of Israel	-	-	-	-	-	-
Total	299	2	2.70	304	3	4.01
Deposits with banks						
In Israel	3,222	1	0.12	1,714	6	1.41
Outside of Israel	443	2	1.82	311	2	2.60
Total	3,665	3	0.33	2,025	8	1.59
Deposits with central banks and cash						
In Israel	18,738	9	0.19	22,985	35	0.61
Outside of Israel	3,204	-	-	1,244	1	0.32
Total	21,942	9	0.16	24,229	36	0.60
Securities loaned or sold in repurchase agreements						
In Israel	399	-	-	342	1	1.17
Outside of Israel	-	-	-	-	-	-
Total	399	-	-	342	1	1.17
Debentures held to maturity and available for sale [4]						
In Israel	10,677	34	1.28	4,303	9	0.84
Outside of Israel	1,182	4	1.36	1,113	4	1.45
Total	11,859	38	1.29	5,416	13	0.96
Debentures held for trading[5]						
In Israel	949	5	2.12	[11]1,099	4	1.46
Outside of Israel	-	-	-	-	-	-
Total	949	5	2.12	1,099	4	1.46
Total interest-bearing assets	186,550	550	1.18	172,493	991	2.32
Receivables for credit card operations	2,966			2,876		
Other non-interest bearing assets[6]	7,953			4,708		
Total assets	197,469			180,077		
Total interest-bearing assets attributable to operations outside of Israel	7,330	31	1.70	5,102	31	2.45

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 March 31, 2015			For the three months ended March 31, 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	6,654	(13)	(0.78)	[11]5,108	3	0.24
Term deposits	114,111	(38)	(0.13)	[11]114,862	[11]223	0.78
Outside of Israel						
On-call	854	-	-	654	-	-
Term deposits	3,527	7	0.80	3,194	8	1.01
Total	125,146	(44)	(0.14)	123,818	234	0.76
Deposits from the Government						
In Israel	56	1	7.34	61	1	6.72
Outside of Israel	-	-	-	-	-	-
Total	56	1	7.34	61	1	6.72
Deposits from banks						
In Israel	1,507	1	0.27	2,112	6	1.14
Outside of Israel	-	-	-	92	-	-
Total	1,507	1	0.27	2,204	6	1.09
Securities loaned or sold in repurchase agreements						
In Israel	232	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	232	-	-	-	-	-
Debentures and subordinated notes						
In Israel	19,404	(97)	(1.98)	16,918	36	0.85
Outside of Israel	-	-	-	-	-	-
Total	19,404	(97)	(1.98)	16,918	36	0.85
Other liabilities						
In Israel	962	(10)	(4.09)	[11]588	[11]1	0.68
Outside of Israel	-	-	-	-	-	-
Total	962	(10)	(4.09)	588	1	0.68
Total interest-bearing liabilities	147,307	(149)	(0.40)	143,589	278	0.78
Non-interest bearing deposits from the public	27,003			[11]18,141		
Payables for credit card transactions	2,966			2,876		
Other non-interest bearing liabilities[8]	8,712			4,993		
Total liabilities	185,988			169,599		
Total equity	11,481			10,478		
Total liabilities and equity	197,469			180,077		
Interest margin			1.59			1.54
Net return[9] on interest-bearing assets						
In Israel	179,220	675	1.52	167,391	690	1.66
Outside of Israel	7,330	24	1.32	5,102	23	1.82
Total	186,550	699	1.51	172,493	713	1.66
Total interest-bearing liabilities attributable to operations outside of Israel	4,381	7	0.64	3,940	8	0.81

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 March 31, 2015			For the three months ended March 31, 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	112,441	836	3.01	[11]100,775	850	3.42
Total interest-bearing liabilities	84,184	(121)	(0.58)	[11]86,594	[11] (234)	(1.09)
Interest margin			2.43			2.33
Israeli currency - linked to the CPI						
Total interest-bearing assets	52,747	(413)	(3.10)	53,347	25	0.19
Total interest-bearing liabilities	37,339	314	3.32	36,885	[11] (15)	(0.16)
Interest margin			0.22			0.03
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	14,032	96	2.76	13,269	85	2.59
Total interest-bearing liabilities	21,403	(37)	(0.69)	[11]16,170	(21)	(0.52)
Interest margin			2.07			2.07
Total - operations in Israel						
Total interest-bearing assets	179,220	519	1.16	167,391	960	2.31
Total interest-bearing liabilities	142,926	156	0.44	139,649	(270)	(0.78)
Interest margin			1.60			1.53

See remarks below.

Management Discussion - Addendum A - continued

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 March 31, 2015 compared to the three months ended March 31, 2014		
	Increase (decrease) due to change[10]		
	Quantity	Price	Net change
Interest-bearing assets			
Loans to the public			
In Israel	27	(461)	(434)
Outside of Israel	1	-	1
Total	28	(461)	(433)
Other interest-bearing assets			
In Israel	5	(12)	(7)
Outside of Israel	3	(4)	(1)
Total	8	(16)	(8)
Total interest revenues	36	(477)	(441)
Interest-bearing liabilities			
Deposits from the public			
In Israel	-	(277)	(277)
Outside of Israel	1	(2)	(1)
Total	1	(279)	(278)
Other interest-bearing liabilities			
In Israel	(11)	(138)	(149)
Outside of Israel	-	-	-
Total	(11)	(138)	(149)
Total interest expenses	(10)	(417)	(427)

(1) Information in these tables is after effect of hedging financial derivatives.
(2) Based on balances at start of month (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month periods ended March 31, 2015 and March 31, 2014, we deducted the average balance of unrealized gain from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 37 million and NIS 19 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2015 and March 31, 2014, we deducted / added the average balance of unrealized gain / loss from adjustment to fair value of debentures held for trading, amounting to NIS 3 million and NIS (10) million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 119 million and NIS 112 million included under interest revenues for the three-month periods ended March 31, 2015 and March 31, 2014, respectively.
(8) Includes financial derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to the change in quantity was calculated by multiplying the new price byd the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the change in price.
(11) Reclassified.

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

Reported amounts (NIS in millions)

	March 31, 2015					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(3)	91,044	3,193	4,406	6,428	8,500	4,745
Financial derivatives (other than options)	9,422	13,594	31,463	13,333	8,462	9,979
Options (in terms of underlying asset)	1,883	2,298	2,941	203	115	-
Total fair value	102,349	19,085	38,810	19,964	17,077	14,724
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	75,947	6,975	12,171	4,691	3,140	2,740
Financial derivatives (other than options)	19,650	22,241	24,729	10,669	7,738	9,602
Options (in terms of underlying asset)	3,608	2,131	2,757	259	115	-
Total fair value	99,205	31,347	39,657	15,619	10,993	12,342
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	3,144	(12,262)	(847)	4,345	6,084	2,382
Cumulative exposure in sector	3,144	(9,118)	(9,965)	(5,620)	464	2,846

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, 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) Includes shares presented in the column "without maturity".
(4) Re-stated. 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.

				March 31, 2015			March 31, 2014			December 31, 2014	
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
1,744	221	524	120,805	3.23	0.93	107,549	3.58	0.67	117,262	3.43	0.88
165	-	-	86,418		1.16	58,422		1.25	74,729		1.19
-	-	-	7,440		0.73	4,925		0.73	7,967		0.73
1,909	221	524	214,663		1.02	170,896		0.87	199,958		0.99
466	240	-	106,370	0.74	0.55	[4] 103,460	0.99	0.38	[4] 106,780	0.97	0.48
162	-	-	94,791		1.35	60,310		1.54	82,788		1.38
-	-	-	8,870		0.85	6,757		0.85	8,914		0.85
628	240	-	210,031		0.92	170,527		0.81	198,482		0.87
1,281	(19)	524	4,632			369			1,476		
4,127	4,108	4,632	4,632								

Management Discussion - Addendum B - Continued

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

Reported amounts (NIS in millions)

	March 31, 2015					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)	1,758	2,662	11,078	21,565	12,033	3,818
Financial derivatives (other than options)	282	10	122	953	1,663	490
Total fair value	2,040	2,672	11,200	22,518	13,696	4,308
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	1,494	992	4,553	13,482	11,998	6,603
Financial derivatives (other than options)	160	639	4,231	4,231	2,192	924
Total fair value	1,654	1,631	8,784	17,713	14,190	7,527
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	386	1,041	2,416	4,805	(494)	(3,219)
Cumulative exposure in sector	386	1,427	3,843	8,648	8,154	4,935

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, 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) Re-stated. 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.

				March 31, 2015			March 31, 2014			December 31, 2014	
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
1,150	44	56	54,164	1.98	2.69	56,054	1.93	3.04	54,627	2.60	2.66
-	-	-	3,520		3.39	3,955		3.44	3,618		3.16
1,150	44	56	57,684		2.73	60,009		3.07	58,245		2.69
2,241	-	3	41,366	0.70	3.78	41,183[3]	1.38	3.82	40,631[3]	1.21	3.37
4	-	-	12,381		1.60	11,295		1.64	10,617		1.68
2,245	-	3	53,747		3.28	52,478		3.35	51,248		3.02
(1,095)	44	53	3,937			7,531			6,997		
3,840	3,884	3,937	3,937								

Management Discussion - Addendum B - Continued

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

Reported amounts (NIS in millions)

	March 31, 2015					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [2]	9,688	5,477	2,723	295	720	941
Financial derivatives (other than options)	34,310	25,302	24,020	5,538	5,433	3,411
Options (in terms of underlying asset)	1,521	4,394	3,154	274	116	-
Total fair value	45,519	35,173	29,897	6,107	6,269	4,352
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [2]	19,128	7,135	10,058	626	72	213
Financial derivatives (other than options)	24,417	16,900	27,100	5,037	5,703	3,372
Options (in terms of underlying asset)	1,654	2,507	3,326	243	116	-
Total fair value	45,199	26,542	40,484	5,906	5,891	3,585
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	320	8,631	(10,587)	201	378	767
Cumulative exposure in sector	320	8,951	(1,636)	(1,435)	(1,057)	(290)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

(2) Excludes balance sheet balances of financial derivatives, 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.

				March 31, 2015			March 31, 2014		As of December 31, 2014		
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
25	10	145	20,024	1.78	0.69	18,166	2.35	0.81	19,856	2.46	0.77
-	-	-	98,014		1.50	55,469		1.62	86,161		1.53
-	-	-	9,459		0.42	7,320		0.42	9,780		0.42
25	10	145	127,497		1.29	80,955		1.33	115,797		1.31
8	-	-	37,240	0.61	0.36	29,434	0.23	0.26	35,517	0.61	0.33
-	-	-	82,529		0.84	46,211		1.21	72,236		0.90
-	-	-	7,846		0.44	5,239		0.44	8,591		0.44
8	-	-	127,615		0.68	80,884		0.81	116,344		0.69
17	10	145	(118)			71			(547)		
(273)	(263)	(118)	(118)								

Management Discussion - Addendum B - Continued

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

Reported amounts (NIS in millions)

	As of December 31, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Non-monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	-	-	-	-	-	-
Total fair value	-	-	-	-	-	-
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[(1)(2)]	102,490	11,332	18,207	28,288	21,253	9,504
Financial derivatives (other than options)	44,014	38,906	55,605	19,824	15,558	13,880
Options (in terms of underlying asset)	3,404	6,692	6,095	477	231	-
Total fair value	149,908	56,930	79,907	48,589	37,042	23,384
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	96,569	15,102	26,782	18,799	15,210	9,556
Financial derivatives (other than options)	44,227	39,780	56,060	19,937	15,633	13,898
Options (in terms of underlying asset)	5,262	4,638	6,083	502	231	-
Total fair value	146,058	59,520	88,925	39,238	31,074	23,454
Financial instruments, net						
Total exposure to interest rate fluctuations	3,850	(2,590)	(9,018)	9,351	5,968	(70)
Total cumulative exposure	3,850	1,260	(7,758)	1,593	7,561	7,491

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Includes shares presented in the column "without maturity".
(3) Weighted average by fair value of average effective duration.
(4) Re-stated. 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 20.2) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 20.3) to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with Public Reporting Regulations. These transactions include, inter alia, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual periods, are non-material in amount.

					March 31, 2015			March 31, 2014			December 31, 2014	
	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
	-	-	-	-	-	-	(1)	-	-	(4)	-	-
	-	-	-	-	-	-	(1)	-	-	(4)	-	-
	2,919	275	725	194,993	2.48	1.40	181,769	2.95	1.42	191,745	2.92	1.38
	165	-	-	187,952		1.38	117,846		1.50	164,508		1.41
	-	-	-	16,899		0.56	12,245		0.54	17,747		0.56
	3,084	275	725	399,844		1.35	311,860		1.41	374,000		1.35
	2,715	240	3	184,976	0.70	1.24	(4)174,077	0.95	1.18	(4)182,928	1.11	1.09
	166	-	-	189,701		1.14	117,816		1.42	165,641		1.19
	-	-	-	16,716		0.66	11,997		0.67	17,509		0.65
	2,881	240	3	391,393		1.17	303,890		1.25	366,078		1.12
	203	35	722	8,451			7,970			7,922		
	7,694	7,729	8,451	8,451								

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated

As of March 31, 2015

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture, forestry and fishing	635	194	829	-	1
Mining and excavation	468	380	848	-	54
Industry and production	5,506	3,210	8,716	-	207
Supply of water, sewage services, waste treatment	9,089	17,561	26,650	15	1
Construction and real estate - construction[6]	2,265	316	2,581	-	1
Construction and real estate - real estate operations	572	420	992	-	369
Commerce	7,985	2,379	10,364	-	142
Transport and storage	648	175	823	-	5
Hotels, dining and food services	968	339	1,307	-	4
Information and communications	1,055	419	1,474	-	39
Financial services	3,932	8,202	12,134	-	1,064
Other business services	1,982	798	2,780	-	5
Public and community services	910	331	1,241	-	39
Total commercial credit risk	36,015	34,724	70,739	15	1,931
Private individuals - housing loans	97,357	7,482	104,839	-	-
Private individuals - other	15,055	10,976	26,031	-	308
Total	148,427	53,182	201,609	15	2,239
For borrowers' activities overseas	3,622	1,238	4,860	51	106
Total credit risk to public	152,049	54,420	206,469	66	2,345
Banking corporations	4,453	-	4,453	346	3,349
Government	299	-	299	13,586	-
Total credit risk	156,801	54,420	211,221	13,998	5,694

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 derivatives.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Includes borrowed securities amounting to NIS 300 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 1,377 million and off-balance sheet credit risk amounting to NIS 1,636 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.

				Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)		
					Credit losses[3]		
Future transactions	Total	Credit performance rating[7]	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit loss
1	831	820	11	9	-	-	5
14	916	916	-	-	2	-	5
129	9,052	8,933	119	68	17	1	96
1	26,667						
		26,333	334	245	(5)	(1)	143
-	2,582	2,332	250	240	(19)	-	71
81	1,442	1,441	1	1	-	-	2
48	10,554	10,262	292	150	26	5	134
8	836	815	21	7	4	1	17
3	1,314	1,296	18	15	-	-	8
7	1,520	1,514	6	1	1	-	7
1,775	14,973	14,862	111	103	6	(1)	100
4	2,789	2,734	55	34	-	3	32
42	1,322	1,299	23	17	(1)	(1)	9
2,113	74,798	73,557	1,241	890	31	7	629
-	104,839	103,847	992	3	(4)	-	619
-	26,339	26,026	195	84	6	12	183
2,113	205,976	203,430	2,428	977	33	19	1,431
27	5,044	5,031	13	8	1	-	29
2,140	211,020	208,461	2,441	985	34	19	1,460
550	8,698	8,698	-	-	1	-	6
-	13,885	13,885	-	-	-	-	-
2,690	233,603	231,044	2,441	985	35	19	1,466

Management Discussion - Addendum C - Continued
Credit Risk by Economic Sector - Consolidated
As of March 31, 2014[7]

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]				Total credit risk
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture, forestry and fishing	619	183	802	-	-
Mining and excavation	828	260	1,088	-	19
Industry and production	5,079	3,524	8,603	52	49
Supply of water, sewage services, waste treatment	8,311	14,791	23,311	23	3
Construction and real estate - construction[6]	2,465	313	2,778	-	3
Construction and real estate - real estate operations	785	391	1,176	15	418
Commerce	7,916	2,079	9,995	-	20
Transport and storage	548	143	691	-	-
Hotels, dining and food services	862	369	1,231	-	2
Information and communications	1,045	396	1,441	-	17
Financial services	2,896	7,448	10,344	-	639
Other business services	1,695	764	2,459	-	3
Public and community services	815	336	1,151	-	110
Total commercial credit risk	33,864	30,997	65,070	90	1,283
Private individuals - housing loans	90,503	4,258	94,552	-	-
Private individuals - other	13,779	10,368	24,147	-	4
Total	138,146	45,623	183,769	90	1,287
For borrowers' activities overseas	4,213	698	4,911	49	35
Total credit risk to public	142,359	46,321	188,680	139	1,322
Banking corporations	2,440	20	2,460	348	1,958
Government	303	10	313	6,239	-
Total credit risk	145,102	46,351	191,453	6,726	3,280

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 297 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 provided to certain purchase groups which are in the course of construction.
(7) Following the Supervisor of Banks' directives dated April 9, 2014, which required the various sector categories to be revised so as to match those of the Central Bureau of Statistics, comparison figures with respect to total credit risk and provision for credit losses (excluding housing loans) were re-classified.

		Total troubled credit risk		Troubled off balance sheet debt[1] and credit risk (other than derivatives)		
				Credit losses[3]		
Future transactions	Total	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit loss
-	802	17	12	2	(1)	7
16	1,123	-	-	-	-	(7)
58	8,762	260	77	(1)	2	118
1	23,338					
		391	353	(24)	(8)	178
-	2,781	417	416	(1)	1	5
118	1,727					
		1	1	-	-	2
29	10,044	242	131	16	8	101
-	691	11	4	1	1	10
4	1,237	16	10	-	-	34
12	1,470	46	43	(1)	-	6
355	11,338	214	133	(2)	(8)	107
3	2,465	46	31	1	3	20
61	1,322	20	17	1	1	6
657	67,100	1,681	1,228	(8)	(1)	587
-	94,552	1,090	2	-	5	635
5	24,156	199	82	6	12	146
662	185,808	2,970	1,312	(2)	16	1,368
26	5,021	33	33	(5)	-	27
688	190,829	3,003	1,345	(7)	16	1,395
527	5,293	-	-	2	-	12
-	6,552	-	-	-	-	-
1,215	202,674	3,003	1,345	(5)	16	1,407

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 debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[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
Supply of water, sewage services, waste treatment	9,060	17,167	26,228	16	3
Construction and real estate - construction[6]	2,428	237	2,665	-	1
Construction and real estate - real estate operations	774	498	1,271	1	375
Commerce	7,440	2,360	9,800	-	42
Transport and storage	649	151	800	-	4
Hotels, dining and food services	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 debt, 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 derivatives.
(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 Supervisor of Banks' directives dated April 9, 2014, which required the various sector categories to be revised so as to match those of the Central Bureau of Statistics, comparison figures with respect to total credit risk and provision for credit losses (excluding housing loans) were re-classified.

			Total troubled credit risk		Troubled off balance sheet debt[1] and credit risk (other than derivatives)		
					Credit losses[3]		
Future transactions	Total	Credit performance rating[7]	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit loss
-	815	802	14	10	3	(3)	7
14	735	735	-	-	(3)	-	(4)
120	8,550	8,461	89	75	(11)	1	91
2	26,249	25,943	307	245	(61)	(11)	149
-	2,666	2,405	261	255	169	99	89
103	1,751	1,750	1	1	1	-	3
36	9,878	9,670	208	141	22	21	95
4	808	791	16	7	8	4	14
7	1,247	1,227	20	17	1	(2)	19
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	602
-	102,179	101,231	948	3	6	22	624
70	25,612	25,291	185	75	93	52	190
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 March 31, 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	Off-balance sheet troubled commercial 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	266	1,180	1,145	362	362	-	2,591	14	2	3,388	-	1,169	1,422
UK	-	173	611	913	344	569	1,353	9	-	916	-	425	359
Other	-	681	1,968	-	-	-	2,649	7	-	2,688	-	1,397	1,252
Total exposure to foreign countries	266	2,034	3,724	1,275	706	569	6,593	30	2	6,992	-	2,991	3,033
Of which: Total exposure to LDC countries	-	-	653	-	-	-	653	2	-	105	-	261	392
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	4	32	-	-	-	36	-	-	22	-	6	30
													As of March 31, 2014
USA	[5]100	[5]1,052	1,213	381	381	-	2,365	25	17	2,197	-	1,418	947
UK	-	412	737	924	280	644	1,793	6	9	1,022	-	362	787
France	-	164	1,525	-	-	-	1,689	26	-	522	-	518	1,171
Other	2	748	1,637	-	-	-	2,387	7	-	2,042	-	1,289	1,098
Total exposure to foreign countries	[5]102	[5]2,376	5,112	1,305	661	644	8,234	64	26	5,783	-	3,587	4,003
Of which: Total exposure to LDC countries	-	-	511	-	-	-	511	1	-	123	-	155	356
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	31	-	-	-	33	-	-	8	-	5	28

Management Discussion - Addendum D - continued

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 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	Off-balance sheet troubled commercial 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	1,008	1,238	1,175	351	351	-	3,421	6	-	2,595	-	2,293	1,128
France	-	507	598	943	402	541	1,646	7	-	1,135	-	692	413
UK	-	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 said 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 March 31, 2015		As of December 31, 2014	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
France	1,400	386	-	-
Germany	401	1,378	724	1,003

As of March 31, 2014, there was no reportable exposure in conformity with 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 March 31, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	(1)	-	(1)
Exposure at end of reported period	-	5	-	5

	For the three months ended March 31, 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 March 31, 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, May 18, 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 March 31, 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, May 18, 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 March 31, 2015, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting principles 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 7.09% of total consolidated assets as of March 31, 2015, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 12.95% of total consolidated net interest revenues before expenses with respect to credit losses for the three-month period 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 March 31, 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 has been determined 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.

Conclusion

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 information 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 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, May 18, 2015

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note		As of March 31,	As of December 31,
		2015	2014	2014
		(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		25,455	29,684	26,798
Securities[1]	2	13,802	6,519	14,259
Securities loaned or sold in repurchase agreements		300	297	107
Loans to the public	3	152,049	142,359	148,912
Provision for credit losses	3	(1,355)	(1,298)	(1,343)
Loans to the public, net		150,694	141,061	147,569
Loans to Governments		299	302	307
Investments in associates		45	60	52
Buildings and equipment		1,668	1,655	1,702
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	5,694	3,280	5,602
Other assets		3,052	[3]1,867	[3]2,162
Total assets		201,096	184,812	198,645
Liabilities and Shareholders' Equity				
Deposits from the public	4	153,002	145,701	152,379
Deposits from banks		1,472	2,106	1,258
Deposits from the Government		59	61	55
Securities loaned or sold in conjunction with repurchase agreements		240	-	223
Debentures and subordinated notes		20,804	17,887	20,580
Liabilities with respect to derivatives	8	7,260	3,002	6,497
Other liabilities[2]		6,618	[3]5,530	[3]6,252
Total liabilities		189,455	174,287	187,244
Equity attributable to equity holders of the Bank		11,126	[3]10,038	[3]10,894
Non-controlling interest		515	[3]487	[3]507
Total equity		11,641	10,525	11,401
Total liabilities and shareholders' equity		201,096	184,812	198,645

(1) Of which: NIS 8,503 million at fair value on consolidated basis (March 31, 2014 - NIS 4,578 million; December 31, 2014 - NIS 8,896 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 105 million (on March 31, 2014 - NIS 97 million, on December 31, 2014 - NIS 102 million).

(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.

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

Moshe Vidman
Chairman of the Board
of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president,
Chief Accountant

Approval date:

Ramat Gan, May 18, 2015

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended March 31,		For the year ended December 31,
		2015	2014	2014
		(unaudited)	(unaudited)	(audited)
Interest revenues	11	550	991	5,347
Interest expenses (revenues)	11	(149)	278	1,972
Interest revenues, net		699	713	3,375
Expenses with respect to credit losses	3	35	(5)	173
Interest revenues, net after expenses with respect to credit losses		664	718	3,202
Non-interest revenues				
Non-interest financing revenues	12	125	81	173
Commissions		356	348	1,395
Other revenues		21	9	44
Total non-interest revenues		502	438	1,612
Operating and other expenses				
Payroll and associated expenses		465	(1)451	(1)1,864
Maintenance and depreciation of buildings and equipment		181	171	705
Other expenses		121	100	458
Total operating and other expenses		767	722	3,027
Pre-tax profit		399	434	1,787
Provision for taxes on profit		145	(1)159	(1)660
After-tax profit		254	275	1,127
Share in profit (loss) of associates, after tax		(1)	1	5
Net profit:				
Before attribution to non-controlling interest		253	276	1,132
Attributable to non-controlling interest		(9)	(8)	(31)
Attributable to equity holders of the Bank		244	268	1,101

(1) 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.

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 March 31,		For the year ended December 31,
	2015	2014[2]	2014[2]
Earnings per share[1]			
Basic earnings per share (in NIS)			
Net profit attributable to equity holders of the Bank	1.06	1.16	4.78
Diluted earnings per share (in NIS)			
Net profit attributable to equity holders of the Bank	1.05	1.16	4.75

(1) Share of NIS 0.1 par value each.

(2) 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.

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

Condnsed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2015	2014[(1)]	2014[(1)]
	(unaudited)	(unaudited)	(audited)
Net profit:			
Before attribution to non-controlling interest	253	276	1,132
Attributable to non-controlling interest	(9)	(8)	(31)
Net profit attributable to equity holders of the banking corporation	244	268	1,101
Other comprehensive income (loss) before taxes			
Adjustments for presentation of available-for-sale securities at fair value, net	63	(6)	(10)
Adjustments from translation of financial statements[(2)]	-	-	6
Net gain (loss) with respect to cash flow hedges	(15)	8	23
Adjustment of liability with respect to employee benefits[(3)]	(78)	(20)	(46)
Total other comprehensive loss, before tax	(30)	(18)	(27)
Related tax effect	13	7	10
Other comprehensive income (loss) after taxes			
Other comprehensive loss before attribution to non-controlling interest	(17)	(11)	(17)
Excluding other comprehensive loss (income) attributed to non-controlling interest	1	(1)	2
Other comprehensive loss attributable to equity holders of the Bank, after taxes	(16)	(12)	(15)
Comprehensive income:			
Before attribution to non-controlling interest	236	265	1,115
Attributable to non-controlling interest	(8)	(9)	(29)
Comprehensive income attributable to equity holders of the Bank	228	256	1,086

(1) Re-stated. For details of adoption of US GAAP for employee rights, see Note 1.C.

(2) Foreign currency translation adjustment of overseas operations whose functional currency differs from that of the Bank, 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.

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the three months ended March 31, 2015 (unaudited)			
Balance as of December 31, 2014	2,197	66	(76)	2,187
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	4	-	4
Related tax effect	-	-	-	-
Realized share-based payment transactions [(2)]	3	(3)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of March 31, 2015	2,200	67	(76)	2,191
	For the three months ended March 31, 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	-	6	-	6
Related tax effect	-	7	-	7
Realized share-based payment transactions[(2)]	4	(4)	-	-
Other comprehensive income, net after tax[(5)]	-	-	-	-
Balance as of March 31, 2014	2,112	125	(76)	2,161
	For the year ended December 31, 2014 (audited)			
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)
Realized share-based payment transactions[(2)]	89	(89)	-	-
Other comprehensive income (loss), net, after tax[(5)]	-	-	-	-
Balance as of December 31, 2014	2,197	66	(76)	2,187
	For the year ended December 31, 2013 (audited)			
Balance as of December 31, 2012	2,058	139	(76)	2,121
Cumulative effect, net of tax, of retroactive application of US GAAP with regard to employee rights[(5)]	-	-	-	-
Balance as of December 31, 2012 after initial application of rules with regard to employee rights	2,058	139	(76)	2,121
Net profit for the period[(5)]	-	-	-	-
Dividends paid	-	-	-	-
Benefit with respect to share-based payment transactions	-	14	-	14
Related tax effect	-	13	-	13
Realized share-based payment transactions[(2)]	50	(50)	-	-
Other comprehensive income (loss), net, after tax[(5)]	-	-	-	-
Balance as of December 31, 2013	2,108	116	(76)	2,148

(1) Share premium generated prior to March 31, 1986.

(2) In the first quarter of 2015, the Bank issued 81,837 ordinary shares of NIS 0.1 per value (in the first quarter of 2014, in 2014 and in 2013 the bank issued 185,160, 1,240,933 and 2,378,980 oridinary NIS 0.1 per value shares, respectively) for exercise of options in conjunction with the Employee Stock Option Plan.

(3) For details see Note 14 - Cumulative Other Comprehensive Income.

(4) For details on various limitations on dividend distributions, see Note 13 to the financial statements for 2014.

(5) Re-stated. For more information about adoption of US accounting rules with regard to employee rights, see Note 1.C.

Cumulative other comprehensive income (loss)	Retained earnings[4]	Total	Non-controlling interest	Total shareholders' equity
(72)	8,779	10,894	507	11,401
-	244	244	9	253
-	-	4	-	4
-	-	-	-	-
-	-	-	-	-
(16)	-	(16)	(1)	(17)
(88)	9,023	11,126	515	11,641
(57)	7,678	9,769	478	10,247
-	268	268	8	276
-	-	6	-	6
-	-	7	-	7
-	-	-	-	-
(12)	-	(12)	1	(11)
(69)	7,946	10,038	487	10,525
(57)	7,678	9,769	478	10,247
-	1,101	1,101	31	1,132
-	-	40	-	40
-	-	(1)	-	(1)
-	-	-	-	-
(15)	-	(15)	(2)	(17)
(72)	8,779	10,894	507	11,401
-	6,690	8,811	441	9,252
(56)	(27)	(83)	(5)	(88)
(56)	6,663	8,728	436	9,164
-	1,090	1,090	44	1,134
-	(75)	(75)	-	(75)
-	-	14	-	14
-	-	13	-	13
-	-	-	-	-
(1)	-	(1)	(2)	(3)
(57)	7,678	9,769	478	10,247

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2015	2014	2014
		Unaudited	audited
Cash flows provided by current operations			
Net profit for the period	253	(1)276	(1)1,132
Adjustments:			
Share of the Bank in undistributed (earnings) loss of associates	1	(1)	(5)
Depreciation of buildings and equipment	65	58	246
Expenses with respect to credit losses	35	(5)	173
Profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	(92)	(19)	(110)
Impairment of securities held for sale	-	-	2
Realized and unrealized gain from adjustment to fair value of securities held for trading	(5)	(9)	(4)
Profit from sale of buildings and equipment	(10)	-	(10)
Benefit from share-based payment transactions	4	6	40
Deferred taxes, net	(79)	(1)7	(1)21
Severance pay - decrease (increase) in excess of amount funded over liability	74	(10)	(21)
Effect of change in exchange rate on cash balances	(104)	(42)	(545)
Net change in current assets			
Deposits with banks	(224)	1,478	346
Loans to the public	(3,160)	(2,491)	(9,177)
Loans to Governments	8	3	(2)
Securities loaned or sold in repurchase agreements	(193)	(227)	(37)
Assets with respect to derivatives	(112)	334	(1,973)
Securities held for trade	385	472	522
Other assets, net	(769)	395	90
Net change in current liabilities			
Deposits from banks	214	65	(783)
Deposits from the public	623	4,457	11,135
Deposits from the Government	4	(1)	(7)
Securities loaned or sold in conjunction with resale agreements	17	-	223
Liabilities with respect to derivatives	763	(536)	2,959
Other liabilities	216	(1)(574)	(1)126
Accrual differences included under investment and financing operations	(403)	22	(181)
Net cash provided by current operations	(2,489)	3,658	4,160

(1) Re-stated. 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.

(2) Reclassified.

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 March 31,		For the year ended December 31,
	2015	2014	2014
		Unaudited	audited
Cash flows provided by investment operations			
Acquisition of debentures held to maturity	-	(77)	(3,477)
Proceeds on redemption of debentures held to maturity	(4,917)	(970)	(12,930)
Acquisition of securities available for sale	4,678	919	8,658
Proceeds from sale of securities available for sale	364	172	153
Proceeds from redemption of securities available for sale	(28)	(52)	(298)
Acquisition of buildings and equipment	4	-	21
Proceeds from sale of buildings and equipment	6	1	17
Realized investment (investment) in associates	107	(7)	(7,856)
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	3,150	1,690	5,809
Redemption of debentures and subordinated notes	(2,439)	(281)	(1,574)
Dividends paid to shareholders	711	1,409	4,235
Increase (decrease) in cash	(1,671)	5,060	539
Cash balance at beginning of year	26,189	23,885	25,105
Effect of change in exchange rate on cash balances	104	42	545
Cash balance at end of period	24,622	28,987	26,189
Interest and taxes paid / received			
Interest received	774	1,013	5,929
Interest paid	98	161	1,760
Dividends received	2	-	8
Taxes on income received	59	75	80
Taxes on income paid	145	209	800
Appendix A - Non-cash Transactions			
Acquisition of buildings and equipment	10	5	10

(1) Reclassified.

Note 1 - Reporting Principles and Accounting Policies

A. General

The condensed financial statements as of March 31, 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 on annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2014.

The Group 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 May 18, 2015.

B. Restatement and reclassification on the financial statements

1. Information in these financial statements as of March 31, 2014 and December 31, 2014 include re-statement 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. 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 01, 2015, the Bank applies the following new accounting standards and directives:

1. Adoption of US GAAP with regard to employee rights.
2. 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
3. Revision of economic sector classification in line with those of the Central Bureau of Statistics, see section B.2 above.

Note 1 - Reporting Principles and Accounting Policies - Continued

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 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 policy and procedure 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 form January 1, 2015 and upon initial application, the Bank would retroactively revise the comparative figures for periods starting on or after January 1, 2013.

Note 1 - Reporting Principles and Accounting Policies - Continued

On January 11, 2015, the Supervisor of Banks issued a circular concerning employee rights - discount rate, disclosure format and transition provisions for initial application. Subsequently, 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 of highly rated corporate debentures. Accordingly, the discount rate for employee benefits is to be calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA - and yields to maturity, for the same term to maturity, for US government debentures, all as of the reporting date.

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

Highlights of new provisions 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 for updating actuarial assumptions 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 average remaining service term of 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 "I obligation in substance" 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 gain and loss, are charged to Profit and Loss.

Note 1 - Reporting Principles and Accounting Policies - Continued

Absence eligible for compensation - paid leave and sick leave:

- The liability with respect to paid leave is measured on 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 Profit and Loss upon realization.

As for accounting treatment of actuarial gain / loss recognized under Other Comprehensive Income sue to changes to discount rates, the stipulation was as follows:

- 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 (hereafter: "the loss") would be included under Accumulated Other Comprehensive Income.
- Any actuarial gain 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.
- Actuarial loss due to current changes in discount rates during the reported year and actuarial gain / loss due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gain and loss (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 initial application on other employee benefits, in which all changes are regularly charged to Profit and Loss, would be charged to retained earnings.

Note 1 - Reporting Principles and Accounting Policies - Continued

Accounting policies prior to application of the new regulations:

- The discount rate for provisions is 4%, as stipulated by the Supervisor of Banks.
- Actuarial gain and loss is 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 an actuarial basis, accounting for the additional cost expected to be incurred by the banking corporation with respect to providing such benefits, or (2) the liability amount calculated as the product of the employee's monthly salary and their 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 regular basis. In similar fashion, the accrued payroll tax expenss 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 Notes 1.P and 1.Q to the financial statements as of December 31, 2014.

Upon application of the regulation, the Bank completed the process of mapping the various rights and benefits of Bank employees which are affected by application of the new standards.

Before is information about the effect of initial application of the new regulations as of March 31, 2014 and as of December 31, 2014.

Consolidated balance sheet data:

	As of March 31, 2014 (unaudited)			As of December 31, 2014 (audited)		
	Amount presented on these financial statements	Effect of application	In conformity with previous regulations	Amount presented on these financial statements	Effect of application	In conformity with previous regulations
	NIS in millions			NIS in millions		
Other assets	1,867	58	1,809	2,162	81	2,081
Other liabilities	5,530	154	5,376	6,252	180	6,072
Retained earnings	7,946	(11)	7,957	8,779	3	8,776
Cumulative other comprehensive income	(69)	(81)	12	(72)	(96)	24
Shareholder equity	10,038	(92)	10,130	10,894	(93)	10,987
Non-controlling interest	487	(4)	491	507	(6)	513
Total equity	10,525	(96)	10,621	11,401	(99)	11,500

Data on statement of profit and loss and consolidated comprehensive income:

	For the three months ended March 31, 2014 (unaudited)			For the year ended December 31, 2014 (audited)		
	Amount presented on these financial statements	Effect of application	In conformity with previous regulations	Amount presented on these financial statements	Effect of application	In conformity with previous regulations
Profit and loss						
Payroll and associated expenses	451	(5)	456	1,864	(5)	1,869
Provision for taxes on profit	159	1	158	660	(13)	673
Net profit:	276	4	272	1,132	18	1,114
Profit attributable to non-controlling interest	(8)	-	(8)	(31)	-	(31)
Profit attributable to equity holders of the Bank	268	4	264	1,101	18	1,083
Basic earnings per share attributable to equity holders of the Bank	1.16	0.01	1.15	4.78	0.08	4.70
Diluted earnings per share attributable to equity holders of the Bank	1.16	0.02	1.14	4.75	0.07	4.68
Other comprehensive income						
Adjustment of liability with respect to employee benefits	(20)	(20)	-	(46)	(46)	-
Related tax effect	8	8	-	17	17	-
After-tax comprehensive income before attribution to non-controlling interest	(11)	(12)	1	(17)	(29)	12
Comprehensive income attributed to non-controlling interest	(1)	(1)	-	2	1	1
Comprehensive income attributable to equity holders of the Bank	(12)	(13)	1	(15)	(28)	13

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 28 million, recognition of negative capital reserve amounting to NIS 59 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 said date for CPI-linked employee liabilities as determined in conformity with US GAAP. The decrease in equity attributable to equity holders of the Bank amounts to NIS 87 million.

In conformity with transition provisions specified in Proper Conduct of Banking Business Regulation no. 299, negative cumulative other loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to re-measurement 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 transition 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 Tier I 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 re-state the capital adequacy data presented on the financial statements as published.

For more information about the required disclosure pursuant to the Supervisor of Banks' directive on this matter, see Note 9 to the financial statements.

2. **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**

On September 30, 2014, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity.

According to this circular, the Public Reporting Regulations have been amended such that a banking corporation is required to adopt generally accepted accounting principles in the USA with regard to classification as liability or equity of financial instruments, including hybrid instruments, including the presentation, measurement and disclosure rules 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 classification and measurement of debt instruments which contain a contingent conversion component into shares.

The amendment of the Public Reporting Regulations and the Q&A file on this matter have no impact the Bank's financial statements.

The Bank applies provisions of the circular as from January 1, 2015.

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

1. Interim directive - Implementation of disclosure requirements pursuant to Basel Pillar 3 - Disclosure of liquidity coverage ratio

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 liquidity coverage ratio for the Israeli banking system.

Further, on September 28, 2014, the Supervisor issued an amendment to 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 liquidity coverage ratio would be required in the Note "Capital Adequacy and Liquidity" as from April 1, 2015.

The Bank applies the regulations as from April 1, 2015 and is in compliance with the requirements stipulated therein.

2. Supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an amendment of the Public Reporting Regulations with regard to supervisory operating segments, as well as a Q&A file on this topic. The circular amends the Public Reporting Regulations with regard to required reporting of supervisory operating segment and modifies certain definitions and directives, whereby banks are required to classify clients into supervisory segments.

Note 1 - Reporting Principles and Accounting Policies - Continued

The major changes to Public Reporting Regulations according to this Q&A file are as follows:

- An additional required 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 on the Board of Directors' report and in the interim directive with regard to "Description of the banking corporation's business and forward-looking information on 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.

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

3. 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 Regulations in conformity with the circular, as from January 1, 2017. In conformity with transition provisions in the circular, upon initial application, it is allowed to choose retroactive application, while re-stating 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.

The Bank is reviewing the impact of the standard on its financial statements and has yet to choose an alternative for application of the transition provisions.

4. Updated format of reporting by a banking corporation to the public

On April 28, 2015, the Supervisor of Banks issued a circular with regard to an updated format of report by a banking corporation and credit card company to the public. 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 basd on leading presentation practices of leading banks in the USA and in Europe. The circular refers, *inter alia*, to changes in presentation order in 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 risk. The provisions of this circular are to applied as from the public report for 2015.

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.

5. Leverage ratio

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

The Supervisor of Banks' regulation adopts the Basel Committee recommendations and sets 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 consolidated basis. Banking corporations whose total balance sheet assets, on consolidated basis, account for 20% or more of total balance sheet assets across the banking system - shall maintain a leverage ratio of 6% or higher.

Note 1 - Reporting Principles and Accounting Policies - Continued

- 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 regulation 202. While taking into consideration the transition provisions stipulated.

- 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 regulation, 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 regulation. Balance sheet items deducted from Tier I capital (pursuant to Regulation 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 set forth in Regulation 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 set forth in the regulation.

  Along with publication of this regulation, the Supervisor of Banks also issued an amendment to Public Reporting Regulations with regard to disclosure of leverage ratio, which includes additional required disclosure on the financial statements with regard to the leverage ratio, including disclosure on 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 on 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.

Note 2 - Securities
As of March 31, 2015 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value[1]
(1) Government of Israel debentures held to maturity	5,152	5,152	205	-	5,357

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gain	Loss	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	6,684	6,614	79	(9)	6,684
Of foreign governments[2][6]	796	793	3	-	796
Of banks and financial institutions in Israel	124	122	2	-	124
Of banks and financial institutions overseas	222	222	-	-	222
Of others overseas	66	66	-	-	66
Total debentures available for sale	7,892	7,817	84	(9)	7,892
Shares[3]	104	106	-	(2)	104
Total securities available for sale	7,996	7,923	[4]84	[4](11)	7,996

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
Of Government of Israel	654	652	2	-	654
Total securities held for trade	654	652	[5]2	-	654
Total securities	13,802	13,727	291	(11)	14,007

(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) See Note 15.A-G to the financial statements as of December 31, 2014 for information on liens on securities held by the Bank.
(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.

Note: 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.

Note 2 - Securities – Consolidated
As of March 31, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [1]
(1) Government of Israel debentures held to maturity	1,842	1,842	25	-	1,867

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [1]
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	2,960	2,952	37	(29)	2,960
Of foreign governments[2][6]	51	51	-	-	51
Of banks and financial institutions in Israel	124	123	1	-	124
Of banks and financial institutions overseas	224	224	-	-	224
Of others in Israel	21	21	-	-	21
Of others overseas	109	107	2	-	109
Total debentures available for sale	3,489	3,478	40	(29)	3,489
Shares[3]	99	99	-	-	99
Total securities available for sale	3,588	3,577	[4]40	[4](29)	3,588

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel[7]	1,089	1,089	1	(1)	1,089
Total securities held for trade	1,089	1,089	[5]1	[5](1)	1,089
Total securities	6,519	6,508	66	(30)	6,544

(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) See Note 16.A-E for information on liens on securities held by the Bank.
(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 99 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 510 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 Regulations, even though they had not been acquired for trade.

Note: 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.

Note 2 - Securities – Consolidated
As of December 31, 2014 (Audited)
Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss 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	Loss	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	7,336	7,328	30	(22)	7,336
Of foreign governments[2][6]	115	115	-	-	115
Of banks and financial institutions in Israel	123	122	1	-	123
Of banks and financial institutions overseas	219	219	-	-	219
Of others in Israel	1	1	-	-	1
Of others overseas	66	66	-	-	66
Total debentures available for sale	7,860	7,851	31	(22)	7,860
Shares[3]	104	105	-	(1)	104
Total securities available for sale	7,964	7,956	[4]31	[4](23)	7,964

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss 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	-	[5](8)	1,034
Total securities	14,259	14,259	109	(31)	14,337

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 16.A-F for information on liens on securities held by the Bank.
(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 Regulations, even though they had not been acquired for trade.

Note: 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.

Note 2 - Securities – Consolidated

Reported amounts (NIS in millions)

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

	As of March 31, 2015 (unaudited)							
	Less than 12 months				12 months or more			
	Fair	Unrealized loss			Fair	Unrealized loss		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Securities available for sale								
Debentures -								
Of the Government of Israel(2)	-	-	-	-	122	7	2	9
Total debentures available for sale	-	-	-	-	122	7	2	9
Shares	2	-	2	2	-	-	-	-
Total securities available for sale	2	-	2	2	122	7	2	9

	As of March 31, 2014 (unaudited)							
	Less than 12 months				12 months or more			
	Fair	Unrealized loss			Fair	Unrealized loss		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	382	4	2	6	215	23	-	23
Total debentures available for sale	382	4	2	6	215	23	-	23
Shares	-	-	-	-	-	-	-	-
Total securities available for sale	382	4	2	6	215	23	-	23

	As of December 31, 2014							
	Less than 12 months				12 months or more			
	Fair	Unrealized loss			Fair	Unrealized loss		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Securities available for sale								
Debentures -								
Of the Government of Israel(2)	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.

(2) See Note 16.A-F to the 2014 financial statements for information on liens on securities held by the Bank.

C. Asset-backed securities -

As of March 31, 2015, March 31, 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 March 31, 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	626	630	189	1,445	5	1,450
Expenses with respect to credit losses	32	(4)	6	34	1	35
Accounting write-offs	(28)	-	(28)	(56)	-	(56)
Recovery of debt written off in previous years	21	-	16	37	-	37
Net accounting write-offs	(7)	-	(12)	(19)	-	(19)
Balance of provision for credit losses at end of period	651	626	183	1,460	6	1,466
Of which: With respect to balance sheet credit instruments	96	-	9	105	-	105

	For the three months ended March 31, 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	620	646	152	1,418	10	1,428
Expenses with respect to credit losses	(13)	-	6	(7)	2	(5)
Accounting write-offs	(39)	(5)	(32)	(76)	-	(76)
Recovery of debt written off in previous years	40	-	20	60	-	60
Net accounting write-offs	1	(5)	(12)	(16)	-	(16)
Balance of provision for credit losses at year end	608	641	146	1,395	12	1,407
Of which: With respect to balance sheet credit instruments	86	-	11	97	-	97

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Following the Supervisor of Banks' directive dated April 9, 2014, which stipulated revision of various sector categories to align with those of the Central Bureau of Statistics, comparative figures with respect to credit risk to the public and the provision for credit losses (excluding housing loans) were revised.

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 debt, and debt for which the provision has been calculated

						March 31, 2015
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Recorded debt balance of debt [1]						
reviewed on individual basis	30,786	3	663	31,452	4,752	36,204
reviewed on group basis	7,000	98,903	14,694	120,597	-	120,597
Total debt	37,786	[2]98,906	15,357	152,049	4,752	156,801
Loans for which a provision for credit losses is assessed by extent of arrears	-	98,250	-	98,250	-	98,250
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	473	-	21	494	6	500
reviewed on group basis	82	626	153	861	-	861
Total provision for credit losses	555	626	174	1,355	6	1,361
Of which: Provision by extent of arrears	-	284	-	284	-	284
						March 31, 2014[3]
Recorded debt balance of debt [1]						
reviewed on individual basis	29,739	2	784	30,525	2,743	33,268
reviewed on group basis	6,540	91,747	13,547	111,834	-	111,834
Total debt	36,279	[2]91,749	14,331	142,359	2,743	145,102
Loans for which a provision for credit losses is assessed by extent of arrears	-	91,042	-	91,042	-	91,042
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	467	2	39	508	12	520
reviewed on group basis	55	639	96	790	-	790
Total provision for credit losses	522	641	135	1,298	12	1,310
Of which: Provision by extent of arrears	-	320	-	320	-	320
						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 group basis	6,847	97,521	14,386	118,754	-	118,754
Total debt	36,361	[2]97,524	15,027	148,912	4,691	153,603
Loans for which a provision for credit losses is assessed by extent of arrears	-	96,795	-	96,795	-	96,795
Provision for credit losses with respect to debt [1]						
reviewed on individual basis	464	-	22	486	5	491
reviewed on group basis	70	630	157	857	-	857
Total provision for credit losses	534	630	179	1,343	5	1,348
Of which: Provision by extent of arrears	-	291	-	291	-	291

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 5,333 million (as of March 31,2014 31, 2014 – NIS. 5,175 million, as of December 31, 2014 - NIS 5,313 million).

(3) Following the Supervisor of Banks' directive dated April 9, 2014, which stipulated revision of various sector categories to align with those of the Central Bureau of Statistics, comparative figures with respect to credit risk to the public and the provision for credit losses (excluding housing loans) were revised.

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

Reported amounts (NIS in millions)

B. Debt[(1)]

1.A. Credit quality and arrears

					As of March 31, 2015	
		Troubled[(2)]			Non impaired debt - additional information	
	Non troubled	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	7,819	35	97	7,951	4	11
Construction and real estate - real estate operations	2,015	10	240	2,265	-	6
Financial services	3,821	9	102	3,932	9	6
Commercial – other	20,207	235	287	20,729	23	125
Total commercial	33,862	289	726	34,877	36	148
Private individuals - housing loans	97,498	994	3	98,495	[(7)]994	[(6)]325
Private individuals - other	14,866	106	83	15,055	20	80
Total public – activity in Israel	146,226	1,389	812	148,427	1,050	553
Banks in Israel	2,249	-	-	2,249	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	148,477	1,389	812	150,678	1,050	553
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,415	-	5	1,420	-	-
Commercial – other	1,486	-	3	1,489	-	10
Total commercial	2,901	-	8	2,909	-	10
Private individuals	713	-	-	713	-	-
Total public – activity overseas	3,614	-	8	3,622	-	10
Overseas banks	2,204	-	-	2,204	-	-
Overseas governments	297	-	-	297	-	-
Total activity overseas	6,115	-	8	6,123	-	10
Total public	149,840	1,389	820	152,049	1,050	563
Total banks	4,453	-	-	4,453	-	-
Total governments	299	-	-	299	-	-
Total	154,592	1,389	820	156,801	1,050	563

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 63 million was classified as troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 205 million provided for by extent of arrears, 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. Debt[1]

1.A. Credit quality and arrears

						As of March 31, 2014[9]
		Troubled[2]			Non impaired debt - additional information	
	Non troubled	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	7,097	17	[8]189	7,303	3	14
Construction and real estate - real estate operations	2,096	1	[8]368	2,465	-	1
Financial services	2,686	77	133	2,896	1	2
Commercial – other	19,624	256	312	20,192	17	114
Total commercial	31,503	351	1,002	32,856	21	131
Private individuals - housing loans	90,413	1,096	2	91,511	[7]1,096	[6]368
Private individuals - other	13,587	111	81	13,779	20	62
Total public – activity in Israel	135,503	1,558	1,085	138,146	1,137	561
Banks in Israel	773	-	-	773	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	136,278	1,558	1,085	138,921	1,137	561
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,464	-	30	1,494	-	-
Commercial – other	1,927	-	2	1,929	-	-
Total commercial	3,391	-	32	3,423	-	-
Private individuals	789	-	1	790	-	-
Total public – activity overseas	4,180	-	33	4,213	-	-
Overseas banks	[8]1,667	-	-	1,667	-	-
Overseas governments	[8]301	-	-	301	-	-
Total activity overseas	6,148	-	33	6,181	-	-
Total public	139,683	1,558	1,118	142,359	1,137	561
Total banks	2,440	-	-	2,440	-	-
Total governments	303	-	-	303	-	-
Total	142,426	1,558	1,118	145,102	1,137	561

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled 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 troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 239 million provided for by extent of arrears, 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) Re-classified.
(9) Following the Supervisor of Banks' directive dated April 9, 2014, which stipulated revision of various sector categories to align with those of the Central Bureau of Statistics, comparative figures with respect to credit risk to the public and the provision for credit losses (excluding housing loans) were revised.

Reported amounts (NIS in millions)

B. Debt[1]

1.A. Credit quality and arrears

	As of December 31, 2014[8]					
		Troubled[2]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
B. Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,749	25	91	7,865	7	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	32,595	211	696	33,502	30	200
Private individuals - housing loans	96,148	950	3	97,101	[7]950	[6]305
Private individuals - other	14,566	105	73	14,744	21	70
Total public – activity in Israel	143,309	1,266	772	145,347	1,001	575
Banks in Israel	1,383	-	-	1,383	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	144,692	1,266	772	146,730	1,001	575
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,451	-	5	1,456	-	-
Commercial – other	1,393	6	4	1,403	-	58
Total commercial	2,844	6	9	2,859	-	58
Private individuals	706	-	-	706	-	-
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 debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled 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 troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, 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, 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) Following the Supervisor of Banks' directive dated April 9, 2014, which stipulated revision of various sector categories to align with those of the Central Bureau of Statistics, comparative figures with respect to credit risk to the public and the provision for credit losses (excluding housing loans) were revised.

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:

						March 31, 2015
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debt in good standing	36,763	97,909	15,168	299	4,453	154,592
Troubled non-impaired debt(1)	289	994	106	-	-	1,389
Impaired debt	734	3	83	-	-	820
Total	37,786	98,906	15,357	299	4,453	156,801
						March 31, 2014
Debt in good standing	34,894	90,651	14,138	(2)303	(2)2,440	142,426
Troubled non-impaired debt(1)	351	1,096	111	-	-	1,558
Impaired debt	1,034	2	82	-	-	1,118
Total	36,279	91,749	14,331	303	2,440	145,102
						December 31, 2014
Debt in good standing	35,439	96,571	14,849	307	4,384	151,550
Troubled non-impaired debt(1)	217	950	105	-	-	1,272
Impaired debt	705	3	73	-	-	781
Total	36,361	97,524	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.

(3) Following the Supervisor of Banks' directive dated April 9, 2014, which stipulated revision of various sector categories to align with those of the Central Bureau of Statistics, comparative figures with respect to credit risk to the public and the provision for credit losses (excluding housing loans) were revised.

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

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

A. Impaired debt and individual provision

					March 31, 2015
	Balance of impaired debt for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[2]	Total balance of impaired debt[2]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	79	11	18	97	278
Construction and real estate - real estate operations	239	16	1	240	378
Financial services	12	7	90	102	92
Commercial – other	171	58	116	287	415
Total commercial	501	92	225	726	1,163
Private individuals - housing loans	3	-	-	3	3
Private individuals - other	20	8	63	83	91
Total public – activity in Israel	524	100	288	812	1,257
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	524	100	288	812	1,257
Borrower activity overseas					
Public - commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	3	-	-	3	6
Total commercial	8	-	-	8	12
Private individuals	-	-	-	-	3
Total public – activity overseas	8	-	-	8	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	8	-	-	8	15
Total public	532	100	288	820	1,272
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	532	100	288	820	1,272
Of which:					
Measured at present value of cash flows	267	84	242	509	
Debt under troubled debt restructuring	321	25	83	404	

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 any.

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

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

A. Impaired debt and individual provision

					March 31, 2014
	Balance of impaired debt for which an individual provision has been made (2)(3)	Balance of individual provision	Balance of impaired debt for which no individual provision has been made (2)	Total balance of impaired debt (2)	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	162	17	(4)27	189	(4)479
Construction and real estate - real estate operations	7	-	(4)361	368	(4)387
Financial services	125	30	8	133	178
Commercial – other	182	64	130	312	607
Total commercial	476	111	526	1,002	1,651
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	21	11	60	81	91
Total public – activity in Israel	499	124	586	1,085	1,744
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	499	124	586	1,085	1,744
Borrower activity overseas					
Public - commercial					
Construction and real estate	30	-	-	30	103
Commercial – other	2	-	-	2	5
Total commercial	32	-	-	32	108
Private individuals	1	-	-	1	3
Total public – activity overseas	33	-	-	33	111
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	33	-	-	33	111
Total public	532	124	586	1,118	1,855
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	532	124	586	1,118	1,855
Of which:					
Measured at present value of cash flows	462	124	164	626	
Debt under troubled debt restructuring	195	18	445	640	

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 any.
(4) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

A. Impaired debt and individual provision

					December 31, 2014
	Balance of impaired debt for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[2]	Total balance of impaired debt[2]	Contractual principal balance of impaired debt
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	
Debt under troubled debt restructuring	307	53	118	425	

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 any.

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

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues

	March 31, 2015			March 31, 2014		
	Average balance of impaired debt[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average balance of impaired debt[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	96	1	1	[(5)]215	13	12
Construction and real estate - real estate operations	248	-	-	[(5)]366	-	-
Financial services	80	-	-	149	-	-
Commercial – other	289	2	2	331	2	2
Total commercial	713	3	3	1,061	15	14
Private individuals - housing loans	2	-	-	2	-	-
Private individuals - other	78	1	1	81	1	1
Total public – activity in Israel	793	4	4	1,144	16	15
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	793	4	4	1,144	16	15
Borrower activity overseas						
Public - commercial						
Construction and real estate	5	-	-	30	-	-
Commercial – other	4	-	-	3	-	-
Total commercial	9	-	-	33	-	-
Private individuals	-	-	-	2	-	-
Total public – activity overseas	9	-	-	35	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	9	-	-	35	-	-
Total public	802	4	4	1,179	16	15
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[(4)]	802	4	4	1,179	16	15

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 debt during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debt in arrears, in the period in which the debt was classified as impaired.
(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 19 million (as of March 31, 2014 - NIS 27 million).
(5) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Troubled debt under restructuring

	March 31, 2015				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	36	-	-	-	36
Construction and real estate - real estate operations	236	-	1	-	237
Financial services	4	-	-	2	6
Commercial – other	46	-	-	18	64
Total commercial	322	-	1	20	343
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	25	-	2	29	56
Total public – activity in Israel	347	-	3	49	399
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	347	-	3	49	399
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	351	-	3	50	404
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	351	-	3	50	404

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 debt.

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

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Troubled debt under restructuring

					March 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	[4]97	-	-	35	132
Construction and real estate - real estate operations	[4]349	-	1	-	350
Financial services	8	-	-	1	9
Commercial – other	63	-	-	17	80
Total commercial	517	-	1	53	571
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	26	-	2	34	62
Total public – activity in Israel	543	-	3	87	633
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	543	-	3	87	633
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	2	6
Commercial – other	-	-	-	-	-
Total commercial	4	-	-	2	6
Private individuals	1	-	-	-	1
Total public – activity overseas	5	-	-	2	7
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	5	-	-	2	7
Total public	548	-	3	89	640
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	548	-	3	89	640

(1) Loans to the public, loans to governments, deposits with banks and other debt, 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 debt.
(4) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring

	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 debt, 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 debt.

As of March 31, 2015, the Bank had no commitments to provide additional credit to debtors subject to troubled debt restructuring, in 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. Debt[1]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made [2]					
	March 31, 2015			March 31, 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	2	-	-	1	-	-
Construction and real estate - real estate operations	-	-	-	-	-	-
Financial services	1	-	-	3	1	1
Commercial – other	28	3	3	26	21	21
Total commercial	31	3	3	30	22	22
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	221	8	8	217	10	9
Total public – activity in Israel	252	11	11	247	32	31
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	252	11	11	247	32	31
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	252	11	11	247	32	31
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	252	11	11	247	32	31

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

Consolidated

	Restructurings made which are in default[2]			
	March 31, 2015		March 31, 2014	
				Recorded debt balance
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	1	-	1	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	14	-	8	1
Total commercial	15	-	9	1
Private individuals - housing loans	-	-	-	-
Private individuals - other	51	1	43	1
Total public – activity in Israel	66	1	52	2
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	66	1	52	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	66	1	52	2
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	66	1	52	2

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was re-structured under troubled debt re-structuring in the 12 months prior to the date on which it became debt in arrears

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

Reported amounts (NIS in millions)

B. Debt

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

		March 31, 2015			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	55,780	1,862	39,681	5,006
	Over 60%	43,030	574	31,794	2,708
Junior lien or no lien		96	3	77	1,722
Total		98,906	2,439	71,552	9,436

		March 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%	49,895	1,447	37,623	2,822
	Over 60%	41,752	505	32,338	1,413
Junior lien or no lien		102	2	82	1,479
Total		91,749	1,954	70,043	5,714

		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 debt

	March 31, 2015				March 31, 2014			
	Commer-cial	Residen-tial	Other	Total	Commer-cial	Residen-tial	Other	Total
Loans purchased	-	-	123	123	-	-	-	-
Loans sold	135	-	-	135	-	-	-	-

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

		March 31,	December 31,
	2015	2014	2014
		(Unaudited)	(Aaudited)
In Israel			
On-call			
Non interest-bearing	28,664	15,556	22,540
Interest-bearing	7,374	5,411	5,933
Total on-call	36,038	20,967	28,473
Term deposits	112,548	120,988	119,751
Total deposits in Israel(1)	148,586	141,955	148,224
Outside of Israel			
On-call			
Non interest-bearing	978	622	682
Interest-bearing	8	9	6
Total on-call	986	631	688
Term deposits	3,430	3,115	3,467
Total deposits overseas	4,416	3,746	4,155
Total deposits from the public	153,002	145,701	152,379
(1) Includes:			
Deposits from individuals	71,525	66,887	70,707
Deposits from institutional investors	40,786	44,513	44,010
Deposits from corporations and others	36,275	30,555	33,507

B. Deposits from the public by size on consolidated basis

		March 31,	December 31,
	2015	2014	2014
		(Unaudited)	(Aaudited)
Maximum deposit			
Up to 1	51,109	51,985	50,887
1 to 10	31,751	25,106	31,119
10 to 100	16,337	13,783	15,522
100 to 500	15,960	12,522	15,511
Above 500	37,845	42,305	39,340
Total	153,002	145,701	152,379

(3) Reclassified.

Note 5 – Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

A. Capital adequacy information

	As of March 31, 2015 (unaudited)	As of March 31, 2014 (unaudited)	As of December 31, 2014 (audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier 1 capital	11,569	(1)10,485	(1)11,370
Tier 1 capital	11,569	10,485	11,370
Tier 2 capital	4,485	4,852	4,883
Total capital	16,054	15,337	16,253
B. Weighted risk asset balances			
Credit risk	117,915	110,062	116,291
Market risk	871	894	1,020
Operating risk	7,435	7,262	7,383
Total weighted risk asset balances	126,221	(1)118,218	(1)124,694
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk elements	9.17	(1)8.87	(1)9.12
Ratio of Tier I capital to risk elements	9.17	(1)8.87	(1)9.12
Ratio of total capital to risk elements	12.72	(1)12.97	(1)13.03
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks(2)	12.50	12.50	12.50
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I capital to risk elements	9.67	(1)9.70	(1)9.55
Ratio of Tier I capital to risk elements	9.67	(1)9.70	(1)9.55
Ratio of total capital to risk elements	13.31	(1)13.80	(1)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	8.99	(3)8.65	(3)8.91
Effect of transitional provisions	0.18	0.22	0.21
Ratio of Tier I equity to risk elements after application of transitional provisions	9.17	8.87	9.12

(1) Excluding the effect of adoption of US GAAP with regard to employee rights, which became effective on January 1, 2015.

(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement would be added at 1% of the housing loan balance as of the reporting date. This requirement is gradually implemented through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, based on data as of the reporting date, are 9.8% and 13.3%, respectively.
Note that the minimum Tier I capital ratio for the first quarter of 2015 is 9.0%.

(3) 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 in accordance with 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 required on that date. 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's Board of Directors instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

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 leveraged loans with LTV ratio over 60% with an adjustable interest component of 25% or higher	– risk weighting of 75%
This compares with the former weighting:	
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 an adjustable interest component of 25% or higher	– risk weighting of 100%

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

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.

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 Regulations 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 Adjustment (CVA) risk.
The directives are effective as from January 1, 2014, subject to transitional provisions.
Below are the key amendments included in these directives:

- **Capital structure**
  Supervisory capital would be composed of only two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.
  The requirement for Tier III capital to cover market risk was eliminated.

- **Qualified capital instruments for Tier I additional capital and Tier II capital**
  Qualification criterias 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 loss 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 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 in accordance with 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 derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.
- **Capital allocation with respect to CVA loss**

  In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

  In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.
  - Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
  - Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

  The amendment to Regulation 202 stipulates that the target date for compliance with the minimum 9% Tier I capital ratio for a non-large banking corporation is January 1, 2015 - in line with the Supervisor of Banks' letter dated March 28, 2012.

  The Bank is prepared to implement these directives and is reviewing their impact on the Bank's strategic plan.

I. Following the publication of these directives, the Bank has revisited 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 an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

Note 5 - Capital adequacy in accordance with 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 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.

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 Regulation no. 329, 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 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 Regulation no. 299, negative cumulative other loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to re-measurement 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 transition 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 6 - Assets and Liabilities by Linkage Basis
As of March 31, 2015

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency(1)			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items(2)	Total
Assets							
Cash and deposits with banks	21,250	128	3,375	389	313	-	25,455
Securities	9,940	230	2,312	1,206	10	104	13,802
Securities loaned or sold in conjunction with repurchase agreements	-	300	-	-	-	-	300
Loans to the public, net(3)	86,673	51,936	8,512	1,879	1,694	-	150,694
Loans to Governments	-	-	163	136	-	-	299
Investments in associates	35	-	-	-	-	10	45
Buildings and equipment	-	-	-	-	-	1,668	1,668
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	3,171	447	1,843	17	216	-	5,694
Other assets	2,550	407	31	1	21	42	3,052
Total assets	123,619	53,448	16,236	3,628	2,254	1,911	201,096
Liabilities							
Deposits from the public	98,101	18,794	27,963	5,471	2,673	-	153,002
Deposits from banks	197	317	702	153	103	-	1,472
Deposits from the Government	13	14	32	-	-	-	59
Securities loaned or sold in conjunction with repurchase agreements	240	-	-	-	-	-	240
Debentures and subordinated notes	2,399	18,405	-	-	-	-	20,804
Liabilities with respect to derivatives	3,366	205	3,294	185	210	-	7,260
Other liabilities	4,564	1,551	113	23	133	234	6,618
Total liabilities	108,880	39,286	32,104	5,832	3,119	234	189,455
Difference	14,739	14,162	(15,868)	(2,204)	(865)	1,677	11,641
Impact of hedging derivatives:							
Derivatives (other than options)	4,071	(4,071)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(12,145)	(5,032)	14,742	1,705	730	-	-
Net in-the-money options (in terms of underlying asset)	(792)	-	595	215	(18)	-	-
Net out-of-the-money options (in terms of underlying asset)	(820)	-	601	201	18	-	-
Total	5,053	5,059	70	(83)	(135)	1,677	11,641
Net in-the-money options (capitalized par value)	408	-	(200)	(164)	(44)	-	-
Net out-of-the-money options (capitalized par value)	1,095	-	(803)	(320)	28	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Whenever the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the various linkage bases.

Note 6 - Assets and Liabilities by Linkage Basis - Continued

As of March 31, 2014

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	27,327	101	1,744	25	487	-	29,684
Securities	2,504	960	1,915	1,011	30	99	6,519
Securities loaned or sold in conjunction with repurchase agreements	243	54	-	-	-	-	297
Loans to the public, net[3]	76,050	52,712	8,309	2,398	1,592	-	141,061
Loans to Governments	-	-	124	178	-	-	302
Investments in investees	35	-	-	-	-	25	60
Buildings and equipment	-	-	-	-	-	1,655	1,655
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,427	546	196	76	35	-	3,280
Other assets	1,412	354	31	1	26	43	1,867
Total assets	109,998	54,727	12,319	3,689	2,170	1,909	184,812
Liabilities							
Deposits from the public	95,653	21,889	21,262	4,208	2,689	-	145,701
Deposits from banks	757	406	854	74	15	-	2,106
Deposits from the Government	11	20	30	-	-	-	61
Debentures and subordinated notes	2,170	15,717	-	-	-	-	17,887
Liabilities with respect to derivatives	1,970	277	473	259	23	-	3,002
Other liabilities	4,205	951	34	11	28	301	5,530
Total liabilities	104,766	39,260	22,653	4,552	2,755	301	174,287
Difference	5,232	15,467	(10,334)	(863)	(585)	1,608	10,525
Impact of hedging derivatives:							
Derivatives (other than options)	2,003	(2,003)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(4,046)	(5,605)	8,581	464	606	-	-
Net in-the-money options (in terms of underlying asset)	(764)	-	614	220	(70)	-	-
Net out-of-the-money options (in terms of underlying asset)	(1,319)	-	1,186	125	9	(1)	-
Total	1,106	7,859	47	(54)	(40)	1,607	10,525
Net in-the-money options (capitalized par value)	858	-	(150)	(613)	(95)	-	-
Net out-of-the-money options (capitalized par value)	39	-	96	(376)	241	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Whenever the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the various linkage bases.

(4) Re-stated. 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 6 - Assets and Liabilities by Linkage Basis
As of December 31, 2014

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	22,083	141	3,702	545	327	-	26,798
Securities	10,192	699	1,786	1,468	10	104	14,259
Securities loaned or sold in conjunction with 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	-	-	-	-	-	1,702	1,702
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	3,094	460	1,926	46	76	-	5,602
Other assets	1,703	366	31	1	20	41	2,162
Total assets	119,979	54,600	15,931	4,219	1,965	1,951	198,645
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 derivatives	3,095	200	2,911	278	13	-	6,497
Other liabilities	4,469	1,296	187	12	44	244	6,252
Total liabilities	109,107	39,095	30,555	5,455	2,788	244	187,244
Difference	10,872	15,505	(14,624)	(1,236)	(823)	1,707	11,401
Impact of hedging derivatives:							
Derivatives (other than options)	3,422	(3,422)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (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	1,761	8,247	(89)	(89)	(132)	1,703	11,401
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 derivatives whose base relates to a non-monetary item.
(3) Whenever the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the various linkage bases.
(4) Re-stated. 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 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

			As of March 31,		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	387	2	324	2	345	2
- Loan guarantees	2,310	29	2,385	23	2,173	28
- Guarantees to home buyers	10,893	7	10,000	8	10,450	6
- Other guarantees and liabilities[3]	4,306	16	3,620	13	4,007	14
- Unutilized revolving credit card facilities	7,595	6	7,231	6	7,478	6
- Unutilized debitory account and other credit facilities in accounts available on demand	19,448	29	16,338	26	19,773	29
- Irrevocable commitments for loans approved but not yet granted	12,687	11	9,161	14	11,807	12
- Commitments to issue guarantees	7,080	5	6,374	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 190 million. (as of March 31, 2014 and December 31, 2014 - NIS 155 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 March 31,	As of December 31,
	2015	2014	2014
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	631	593	659
Computerization and software service contracts	164	214	200
Acquisition and renovation of buildings	8	13	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 upon the contract date.

Note 7 - Contingent Liabilities and Special Commitments - Continued

C. Contingent liabilities and other special commitments

1) For more information about contingent liabilities and special commitments of the Bank Group, see Note 19 to the financial statements for the year ended December 31, 2014. Below are material changes to the description provided in the 2014 financial statements.

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 a derivative claim. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity and in which developments and changes have occurred compared to the report 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 Supervsisor of Banks has been rescinded in conjunction with an arrangement which was granted agreed ordinance status on June 16, 2014.

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. The Government's Legal Counsel’s position was filed on April 15, 2015 and a Court hearing of the motion to approve the settlement agreement tool place on April 16, 2015. The Court set a schedule for the parties to respond to the issues arising from the Government's Legal Counsel’s position.

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 response (on behalf of the Enforcement and Collection Authority and on behalf of the Bank of Israel).

On March 16, 2015, the banks filed their response to the Government's Legal Counsel’s position.

The plaintiffs’ response to said response by the banks was filed on April 1, 2015.

On April 19, 2015, a preliminary hearing took place and in conformity with the Court’s decision, a further hearing was scheduled to June 21, 2015, to be attended by a representative of the Government's Legal Counsel and an authorized representative of the Enforcement and Collection Authority.

Note 7 - Contingent Liabilities and Special Commitments - Continued

C) 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.

2) In March 2014, a claim and motion for class action status were filed with the Tel Aviv District Court in the amount of NIS 2.07 billion against the Bank, as well as against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Igud 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 have filed a unified response to the two motions, in which they attributed part of the claimed amount to each of the defendants. The Bank's alleged share for both claims together was set at (principal amount of) NIS 1.145 billion.

A preliminary hearing of the motion took place on March 8, 2015. At this hearing, the Court set dates for completion of statements of claim by either party and set the date for a further pre-trial hearing on October 25, 2015.

3) 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 C. (2) above.

The claim concerns a matter similar to the one discussed in section C.(2) 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 plaintiffs have filed their response there to. The plaintiffs have 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 preliminary hearing of this motion took place. At this hearing, the Court set dates for completion of statements of claim by either party and set the date for a further pre-trial hearing on October 25, 2015.

Note 7 - Contingent Liabilities and Special Commitments - Continued

D. 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.

E. 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 i nthe 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, another pre-trial hearing took place. In conformity with the Court decision, the defendant banks filed certifications with regard to existence of signage at the entry to all branches, as directed by Israeli police and in conformity with regulations.

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

F. 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 Regulation 325 concerning "management of credit facility in checking account". The plaintiffs claim thisregulation 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.

Note 7 - Contingent Liabilities and Special Commitments - Continued

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. 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. Another hearing was scheduled for October 15, 2015.

G. 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 deadline for filing a statement of defense was extended to August 15, 2015.

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 126 million.

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 has yet to file a response to this motion.

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.

Note 7 - Contingent Liabilities and Special Commitments - Continued

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).

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.4) below 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, 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.4) below 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 also started to collect electronic messages with regard to the US clients, exchanged at the Bank and at Mizrahi Switzerland, at various Group sites (the Bank branch in Los Angeles, the Bank branch in London, Mizrahi Switzerland and at branches in Israel).

Furthermore, during this time the external experts started validation of the statistical data.

Note with regard to the provision, as reported on the annual report, it is adjusted for changes in exchange rates.

Also note that as of the approval date of these financial statements, the Bank's legal counsel is of the opinion (similar to the opinion of legal counsel as reported in the annual report) that it is not possible at this stage to estimate the potential loss due to the matters at hand, nor the exposure of the Bank Group with regard there to, nor the range of such exposure.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of March 31, 2015 (unaudited)					
	Interest contracts				Commodity	
			Currency	Contracts	contracts	
	NIS - CPI	Other	contracts	for shares	and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives(1)						
Forward contracts	4,185	-	-	-	-	4,185
Swaps	-	1,778	-	-	-	1,778
Total	4,185	1,778	-	-	-	5,963
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,778	-	-	-	1,778
B. ALM derivatives(1)(2)						
Forward contracts	6,729	800	115,853	-	19	123,401
Option contracts traded on stock exchange:						
Options written	-	-	4,366	869	-	5,235
Options purchased	-	-	4,574	872	-	5,446
Other option contracts:						
Options written	-	-	17,513	-	-	17,513
Options purchased	-	-	15,504	-	-	15,504
Swaps	1,889	34,285	9,817	-	-	45,991
Total	8,618	35,085	167,627	1,741	19	213,090
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,619	17,763	-	-	-	19,382
C. Other derivatives(1)						
Forward contracts	-	-	1,355	-	-	1,355
Option contracts traded on stock exchange:						
Options written	-	-	9,215	17,227	1	26,443
Options purchased	-	-	9,215	17,227	1	26,443
Other option contracts:						
Options written	-	436	-	58	-	494
Options purchased	-	338	-	74	-	412
Swaps	-	4	117	9,393	-	9,514
Total	-	778	19,902	43,979	2	64,661

(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 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of March 31, 2015 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	371	371
Foreign currency spot swap contracts	-	-	9,401	-	-	9,401
Total	-	-	9,401	-	371	9,772
Total stated amounts of derivatives	12,803	37,641	196,930	45,720	392	293,486
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	106	-	-	-	-	106
Negative fair value, gross	-	184	-	-	-	184
B. ALM derivatives(1)(2)						
Positive fair value, gross	344	1,578	2,774	147	-	4,843
Negative fair value, gross	227	1,834	4,278	-	-	6,339
C. Other derivatives(1)						
Positive fair value, gross	-	2	143	612	-	757
Negative fair value, gross	-	2	142	595	-	739
Total						
Positive fair value, gross(3)	450	1,580	2,917	759	-	5,706
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	450	1,580	2,917	759	-	5,706
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	146	142	1,041	540	-	1,869
Total						
Negative fair value, gross(3)	227	2,020	4,420	595	-	7,262
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	227	2,020	4,420	595	-	7,262
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	4	137	1,339	546	-	2,026

(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 derivatives amounting to NIS 12 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 2 million.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						As of March 31, 2014 (unaudited)
	Interest contracts				Commodities	
	NIS - CPI	Other	Currency contracts	Contracts for shares	and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives[1]						
Forward contracts	2,053	-	-	-	-	2,053
Swaps	-	[3]2,405	-	-	-	2,405
Total	2,053	2,405	-	-	-	4,458
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,405	-	-	-	2,405
B. ALM derivatives[1][2]						
Forward contracts	7,818	2,200	51,703	-	46	61,767
Option contracts traded on stock exchange:						
Options written	-	-	4,624	1,495	-	6,119
Options purchased	-	-	5,142	1,510	-	6,652
Other option contracts:						
Options written	-	-	15,339	-	14	15,353
Options purchased	-	-	13,815	-	13	13,828
Swaps	2,148	33,141	10,999	-	-	46,288
Total	9,966	35,341	101,622	3,005	73	150,007
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,552	18,596	-	-	-	20,148
C. Other derivatives[1]						
Forward contracts	-	-	1,252	-	-	1,252
Option contracts traded on stock exchange:						
Options written	-	-	9,045	10,827	-	19,872
Options purchased	-	-	9,045	10,827	-	19,872
Other option contracts:						
Options written	-	299	-	2	-	301
Options purchased	-	134	-	49	-	183
Swaps	-	[3]3	224	3,471	-	3,698
Total	-	436	19,566	25,176	-	45,178

(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 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of March 31, 2014 (unaudited)					
	Interest contracts		Contractual	contracts	Commodity contracts	Total
	NIS - CPI	Other	Foreign currency	with respect to shares	and others	
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	-	-	4,746	-	-	4,746
Total	-	-	4,746	-	17	4,763
Total stated amounts of derivatives	12,019	38,182	125,934	28,181	90	204,406
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	20	2	-	-	-	22
Negative fair value, gross	-	188	-	-	-	188
B. ALM derivatives(1)(2)						
Positive fair value, gross	246	1,157	1,390	225	1	3,019
Negative fair value, gross	191	1,390	1,011	7	1	2,600
C. Other derivatives(1)						
Positive fair value, gross	-	5	84	162	-	251
Negative fair value, gross	-	-	68	151	-	219
Total						
Positive fair value, gross(3)	266	1,164	1,474	387	1	3,292
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	266	1,164	1,474	387	1	3,292
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	71	117	913	307	-	1,408
Total						
Negative fair value, gross(3)	191	1,578	1,079	158	1	3,007
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	191	1,578	1,079	158	1	3,007
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	7	145	682	154	1	989

(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 derivatives amounting to NIS 12 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 5 million.

Note 8 - Financial derivatives 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					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
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 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

Financial derivatives activity – volume, credit risk and maturity - continued

a) Activity on consolidated basis - continued

	As of December 31, 2014 (audited)					
	Interest contracts				Commodities and other contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares		Total
D. Foreign currency spot swap contracts						
Foreign currency spot swap contracts	-	-	8,535	-	-	8,535
Total stated amounts of derivatives	11,433	35,026	176,027	48,976	15	271,477
2. Fair value, gross, of financial derivatives						
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 derivatives	346	1,380	3,039	847	-	5,612
Of which: Carrying amount of assets with respect to derivatives 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 derivatives	217	1,857	3,848	581	-	6,503
Of which: Carrying amount of liabilities with respect to derivatives 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 derivatives amounting to NIS 10 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 6 million.

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

Reported amounts (NIS in millions)

Financial derivatives activity – volume, credit risk and maturity - continued

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	As of March 31, 2015 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [(1)]	**692**	**3,571**	**36**	**-**	**1,407**	**5,706**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(3,039)	-	-	(91)	(3,130)
Mitigation of credit risk with respect to cash collateral received	-	(335)	-	-	(56)	(391)
Net amount of assets with respect to derivatives	692	197	36	-	1,260	2,185
Off-balance sheet credit risk on financial derivatives[(2)]	-	1,982	55	-	946	2,983
Mitigation of off-balance sheet credit risk	-	(905)	-	-	(65)	(970)
Net off-balance sheet credit risk with respect to derivatives	-	1,077	55	-	881	2,013
Total credit risk on financial derivatives	692	1,274	91	-	2,141	4,198
Carrying amount of liabilities with respect to derivatives[(3)]	**518**	**5,067**	**-**	**42**	**1,635**	**7,262**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(3,039)	-	-	(91)	(3,130)
Pledged cash collateral	-	(1,903)	-	-	(12)	(1,915)
Net amount of liabilities with respect to derivatives	518	125	-	42	1,532	2,217

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 12 million.

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with a 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 derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 2 million.

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

Reported amounts (NIS in millions)

Financial derivatives activity – volume, credit risk and maturity - continued

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	As of March 31, 2014 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [1]	**424**	**1,958**	**14**	**-**	**896**	**3,292**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,528)	-	-	(16)	(1,544)
Mitigation of credit risk with respect to cash collateral received	-	(254)	-	-	-	(254)
Net amount of assets with respect to derivatives	424	176	14	-	880	1,494
Off-balance sheet credit risk on financial derivatives[2]	95	1,031	28	-	682	1,836
Mitigation of off-balance sheet credit risk	-	(528)	-	-	(16)	(544)
Net off-balance sheet credit risk with respect to derivatives	95	503	28	-	666	1,292
Total credit risk on financial derivatives	519	679	42	-	1,546	2,786
Carrying amount of liabilities with respect to derivatives [3]	**181**	**2,205**	**-**	**-**	**621**	**3,007**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,528)	-	-	(16)	(1,544)
Pledged cash collateral	-	(530)	-	-	-	(530)
Net amount of liabilities with respect to derivatives	181	147	-	-	605	933

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 12 million.

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with a 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 derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 5 million.

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

Reported amounts (NIS in millions)

Financial derivatives activity – volume, credit risk and maturity - continued

b) Credit risk on financial derivatives 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 derivatives [(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 derivatives	903	53	36	-	1,460	2,452
Off-balance sheet credit risk on financial derivatives[(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 derivatives	-	764	42	-	914	1,720
Total credit risk on financial derivatives	903	817	78	-	2,374	4,172
Carrying amount of liabilities with respect to derivatives [(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 derivatives	685	109	-	32	841	1,667

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 10 million.

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with a 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 derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 6 million.

In the three-month period ended March 31, 2015, the Bank recognized revenues from decrease in credit losses with respect to derivatives, amounting to NIS 6 million (in the three-month period ended March 31, 2014 and in all of 2014, the Bank recognized credit losses with respect to derivatives amounting to NIS 5 million and NIS 10 million, respectively).

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

Reported amounts (NIS in millions)

Financial derivatives activity – volume, credit risk and maturity - continued

c) Maturity dates – stated amounts: year-end balances - Consolidated

					March 31, 2015 (unaudited)
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	691	4,079	6,948	1,085	12,803
Other	2,537	6,973	17,396	10,735	37,641
Currency contracts	124,554	59,459	10,224	2,693	196,930
Contracts for shares	37,593	8,078	49	-	45,720
Commodities and other contracts	15	123	254	-	392
Total	165,390	78,712	34,871	14,513	293,486

					March 31, 2014 (unaudited)
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	658	5,668	3,925	1,768	12,019
Other	1,766	7,692	15,686	13,038	38,182
Currency contracts	67,558	46,757	5,923	5,696	125,934
Contracts for shares	24,093	4,025	63	-	28,181
Commodities and other contracts	61	29	-	-	90
Total	94,136	64,171	25,597	20,502	204,406

					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
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

A. Description of benefits

1. 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 as set forth in section 7 below, 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. With respect to several previous Tefahot employees, the Bank is legally absolved from making compensation payments only for the period commencing in February 2006 (with respect to previous Tefahot management, the bank is absolved from its obligation commencing January 1, 2006). with respect to the banks' obligation until the end of 2005 (until January 2006 for previous Tefahot management), the Bank has contributed to pension and retirement funds and has recorded a provision for the difference between liability and contributions.

2. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

3. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees.

   The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

4. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements.

5. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

6. Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

Note 9 - Employee Rights - Continued

7. At Bank Yahav, the Bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in provident funds.

   To some of its employees, Bank Yahav committed to deliver, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Act). The Bank is not required to make up the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

   Bank Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the Bank. To some, the Bank has committed to release to them the severance pay component accrued in the pension fund, in addition to their final salary multiplied by their number of years in service.

   Bank Yahav committed to make monthly payments through the official retirement age to two senior executives who retired from Bank Yahav, with this payment linked to changes in the salary of Bank Yahav's CEO.

   Bank Yahav's commitments are covered by appropriate reserves and provisions based on actuarial calculation.

Note 9 - Employee Rights - Continued

B. Liability amounts with respect to benefits by type:

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Post-employment and pre-retirement benefits and post-retirement benefits[(1)]				
Liability amount	870	826	811	821
Fair value of plan assets	106	107	99	107
Excess liability	764	719	712	714
Excess liability included under Other Liabilities	764	719	712	714
Other long-term benefits (before termination)[(2)]				
Liability amount	119	96	107	93
Excess liability included under Other Liabilities	119	96	107	93
Total				
Excess liability with respect to employee benefits over plan assets included under Other Liabilities[(1)(2)]	883	815	819	807
Of which: With respect to overseas employee benefits	10	8	10	8

(1) Pension, severance pay and other benefits on defined-benefit plan, including balance of liability with respect to employees who have retired.

(2) Primarily jubilee bonus and tuition for current employees.

Note 9 - Employee Rights - Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Obligation with respect to expected benefit at start of period	811	821	821	794
Cost of service	6	3	18	31
Cost of interest	7	3	26	38
Actuarial loss	64	18	40	17
Benefits paid	(18)	(19)	(95)	(72)
Other	-	-	1	13
Obligation with respect to expected benefit at end of period	870	826	811	821
Obligation with respect to cumulative benefit at end of period[2]	802	774	757	774

1.2. Change in fair value of plan assets and plan funding status

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Fair value of plan assets at start of period	99	107	107	99
Actual return on plan assets	6	2	7	8
Deposits to plan by the banking corporation	1	2	6	6
Deposits to plan by employees	-	(4)	(21)	(6)
Fair value of plan assets at end of period	106	107	99	107
Funding status - net liability recognized at end of period	764	719	712	714

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Excludes any assumptions with regard to future remuneration.

Note 9 - Employee Rights - Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status - continued

1.3. Amounts recognized on the consolidated balance sheet

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Amounts recognized under Other Liabilities	764	719	712	714

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Net actuarial loss	108	22	43	12
Net liability with respect to transition	87	87	87	87
Total - recognized under Other Comprehensive Income	195	109	130	99

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Obligation with respect to expected benefit	870	826	811	821
Obligation with respect to cumulative benefit	802	774	757	774
Fair value of plan assets	106	107	99	107

Note 9 - Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

2. Expenses during the reported period

2.1. Net benefit cost components recognized on Profit and Loss

	For the three months ended March 31,		For the year ended December 31,	
	2015	2014	2014	2013
	NIS in millions			
Cost of service	6	3	18	31
Cost of interest	7	3	26	38
Deduction of non-allowed amounts:				
Actuarial loss[2]	1	-	1	-
Total benefit cost, net	14	6	45	69

2.2. Changes to obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the three months ended March 31,		For the year ended December 31,	
	2015	2014	2014	2013
	NIS in millions			
Net actuarial loss (gain) for the period	64	18	40	17
Amortization of actuarial loss[2]	(1)	-	(1)	-
Total - recognized under Other Comprehensive Income	63	18	39	17
Total benefit cost, net	14	6	45	69
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	77	24	84	86

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense through December 31, 2015, before tax effect:

	NIS in millions
Net actuarial loss[2]	3
Total expected to be deducted from Cumulative Other Comprehensive Income	3

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Actuarial loss due to current changes in discount rates during the reported year and actuarial gain / loss due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.C.1.

Note 9 - Employee Rights - Continued

D. Assumptions

1. Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

1.1. Key assumptions used to determine the obligation with respect to benefit:

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Discount rate	1.00%	1.60%	1.65%	1.95%
Discount rate - CPI	2.00%	2.00%	2.00%	2.00%
Departure rate	2.35%	2.20%	2.40%	2.10%
Remuneration increase rate	0.87%	0.91%	0.99%	0.89%

1.2. Key assumptions used to measure benefit cost for the period (in percent):

				Consolidated
		March 31		December 31
	2015	2014	2014	2013
				NIS in millions
Discount rate	3.75%	4.10%	4.17%	4.20%
Expected long-term return on plan assets	4.08%	4.74%	4.68%	4.76%
Remuneration increase rate	0.87%	0.90%	1.00%	1.00%

1.3. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

				Increase by 1 percentage point				Decrease by 1 percentage point
		March 31		December 31		March 31		December 31
	2015	2014	2014	2013	2015	2014	2014	2013
Discount rate	(71)	(21)	(43)	(38)	86	26	50	43
Departure rate	113	105	156	102	(140)	(118)	(80)	(114)
Remuneration increase rate	43	32	36	30	(37)	(26)	(29)	(25)

Note 9 - Employee Rights - Continued

E. Plan assets

1.1. Fair value composition of plan assets

Asset type	As of December 31, 2014
Shares	27
Government assistance to legacy pension funds	14
Other	5
Debentures: Government	15
Designated Government	21
Corporate	17
Total	99

1.2 Fair value of plan assets by asset type and allocation target for 2015 (in percent)

	Allocation target	Percentage of plan assets
Asset type	As of December 31, 2015	As of December 31, 2014
Shares	26	27
Government assistance to legacy pension funds	14	14
Other	6	5
Debentures: Government	15	15
Designated Government	22	22
Corporate	17	17
Total	100	100

F. Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2015	62
2016	61
2017	61
2018	58
2019	56
2020-2024	224
2025 and later	450
Total	972

Note 10 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

A. Fair value balances

					As of March 31, 2015 (unaudited)
	Carrying amount				Fair value
		Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	25,455	4,838	16,177	4,436	25,451
Securities[3]	13,802	11,168	2,519	320	14,007
Securities loaned or sold in repurchase agreements	300	300	-	-	300
Loans to the public, net	150,694	460	10,636	[5]141,653	152,749
Loans to Governments	299	-	-	299	299
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	5,694	727	3,838	[2]1,129	5,694
Other financial assets	2,154	1,034	-	1,118	2,152
Total financial assets	[4]198,433	18,527	33,170	148,990	200,687
Financial liabilities					
Deposits from the public	153,002	460	38,572	[5]116,772	155,804
Deposits from banks	1,472	-	344	1,151	1,495
Deposits from the Government	59	-	-	68	68
Securities loaned or sold in conjunction with resale agreements	240	240	-	-	240
Debentures and subordinated notes	20,804	21,275	-	973	22,248
Liabilities with respect to derivatives	7,260	517	5,104	[2]1,639	7,260
Other financial liabilities	5,122	880	3,349	892	5,121
Total financial liabilities	[4]187,959	23,372	47,369	121,495	192,236

(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 49,340 million and NIS 49,650 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) Includes embedded derivatives in loans to the public, net amounting to NIS 12 million and NIS 2 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 March 31, 2014 (unaudited)
	Carrying amount				Fair value
		Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	29,684	3,055	23,946	2,681	29,682
Securities[3]	6,519	3,520	2,726	298	6,544
Securities loaned or sold in repurchase agreements	297	297	-	-	297
Loans to the public, net	141,061	[6]287	[6]9,344	[5]133,601	143,232
Loans to Governments	302	-	-	302	302
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,280	437	2,304	[2]539	3,280
Other financial assets	1,677	492	-	1,185	1,677
Total financial assets	[4]182,855	8,088	38,320	138,641	185,049
Financial liabilities					
Deposits from the public	145,701	[6]287	[6]30,721	[5]117,462	148,470
Deposits from banks	2,106	-	19	2,125	2,144
Deposits from the Government	61	-	-	72	72
Debentures and subordinated notes	17,887	17,442	-	1,906	19,348
Liabilities with respect to derivatives	3,002	181	2,086	[2]735	3,002
Other financial liabilities	[7]4,043	[6]222	3,133	[7]688	4,043
Total financial liabilities	[4]172,800	18,132	35,959	122,988	177,079

(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 43,291 million and NIS 31,920 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) Includes embedded derivatives in loans to the public, net amounting to NIS 12 million and NIS 5 million, respectively.
(6) Re-classified.
(7) Re-stated. For more information about adoption of the Supervisor of Banks' directives concerning 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 amount				Fair value
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	26,798	5,316	17,239	4,246	26,801
Securities[(3)]	14,259	11,073	2,947	317	14,337
Securities loaned or sold in repurchase agreements	107	107	-	-	107
Loans to the public, net	147,569	487	10,230	137,517[(5)]	148,234
Loans to Governments	307	-	-	300	300
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	5,602	939	3,686	977[(2)]	5,602
Other financial assets	1,931	675	-	1,256	1,931
Total financial assets	196,608[(4)]	18,597	34,102	144,648	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 derivatives	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 3.
(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) Includes embedded derivatives in loans to the public, net amounting to NIS 10 million and NIS 6 million, respectively.
(6) Re-stated. For more information about adoption of the Supervisor of Banks' directives concerning 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 March 31, 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	4,235	2,449	-	6,684
Of foreign governments	796	-	-	796
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	20	202	222
Of others overseas	-	50	16	66
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	654	-	-	654
Securities loaned or sold in repurchase agreements	300	-	-	300
Credit with respect to loans to clients	460	-	-	460
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	275	175	450
Other	-	1,501	79	1,580
Currency contracts	260	2,058	599	2,917
Contracts for shares	467	4	276	747
Other financial assets	1,034	-	-	1,034
Other	-	-	12	12
Total assets	8,332	6,357	1,359	16,048
Liabilities				
Deposits with respect to borrowing from clients	460	-	-	460
Securities loaned or sold in conjunction with resale agreements	240	-	-	240
Liabilities with respect to derivatives (1)				
Interest contracts:	-	217	10	227
NIS / CPI	-	1,854	166	2,020
Other	197	3,033	1,190	4,420
Currency contracts	320	-	273	593
Contracts for shares	880	-	-	880
Other	-	-	2	2
Total liabilities	2,097	5,104	1,641	8,842

(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 March 31, 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	368	2,592	-	2,960
Of foreign governments	51	-	-	51
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	48	176	224
Of others in Israel	21	-	-	21
Of others overseas	-	86	23	109
Securities held for trading:				
Debentures of the Government of Israel	1,089	-	-	1,089
Securities loaned or sold in repurchase agreements	297	-	-	297
Credit with respect to loans to clients	287	-	-	287
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	120	146	266
Other	-	1,096	68	1,164
Currency contracts	149	1,007	318	1,474
Contracts for shares	288	80	7	375
Commodities and other contracts	-	1	-	1
Other financial assets	492	-	-	492
Other	-	-	12	12
Total assets	3,166	5,030	750	8,946
Liabilities				
Deposits with respect to borrowing from clients	287	-	-	287
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	180	11	191
Other	-	1,400	178	1,578
Currency contracts	110	502	467	1,079
Contracts for shares	71	4	78	153
Commodities and other contracts	-	-	1	1
Other financial liabilities	(2)222	-	-	222
Other	-	-	5	5
Total liabilities	690	2,086	740	3,516

(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) Re-classified.

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 sold in repurchase agreements	107	-	-	107
Credit with respect to loans to clients	487	-	-	487
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	227	119	346
Other	-	1,322	58	1,380
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 repurchase agreements	223	-	-	223
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	207	10	217
Other	-	1,684	173	1,857
Currency contracts	235	2,877	736	3,848
Contracts for shares	450	8	117	575
Other financial liabilities	(2)390	-	-	390
Other	-	-	6	6
Total liabilities	1,785	4,776	1,042	7,603

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(2) Re-classified.

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 March 31, 2015 (unaudited)				For the three months ended March 31, 2015
	Fair value				
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Loss
Impaired credit whose collection is contingent on collateral	-	-	53	53	-

	As of March 31, 2014 (unaudited)				For the three months ended March 31, 2014
	Fair value				
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Gain
Impaired credit whose collection is contingent on collateral	-	172	211	383	-

	December 31, 2014				For the year ended December 31, 2014
	Fair value				
	Level 1[1]	Level 2[1]	Level 3[1]	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) Re-stated.

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 March 31, 2015 (unaudited)								
		Realized / unrealized gain (loss) 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 March 31, 2015	Unrealized gain (loss) with respect to instruments held as of March 31, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	199	3	-	-	-	-	-	202	3
Of others overseas	16	-	-	-	-	-	-	16	-
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	119	68	-	7	-	(19)	-	175	65
Other	58	17	-	4	-	-	-	79	60
Currency contracts	680	130	-	270	-	(481)	-	599	416
Contracts for shares	120	133	-	44	-	(21)	-	276	-
~~Commodities and other contracts~~									
Other	10	2	-	-	-	-	-	12	-
Total assets	1,202	353	-	325	-	(521)	-	1,359	544
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	10	1	-	-	-	(1)	-	10	(11)
Other	173	(10)	-	3	-	-	-	166	(12)
Currency contracts	736	348	-	405	-	(299)	-	1,190	(783)
Contracts for shares	117	131	-	45	-	(20)	-	273	-
Other	6	(4)	-	-	-	-	-	2	-
Total liabilities	1,042	466	-	453	-	(320)	-	1,641	(806)

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss 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 March 31, 2014 (unaudited)							
		Realized / unrealized gain (loss) 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 March 31, 2014	Unrealized gain (loss) with respect to instruments held as of March 31, 2014
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	176	-	-	-	-	-	-	176	-
Of others overseas	24	(1)	-	-	-	-	-	23	(1)
Assets with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	56	60	-	5	-	(11)	36	146	68
Other	67	2	-	1	-	(2)	-	68	36
Currency contracts	321	(69)	-	94	-	(28)	-	318	147
Contracts for shares	91	(12)	-	16	-	(88)	-	7	-
Commodities and other contracts	1	-	-	-	-	(1)	-	-	-
Other	11	1	-	-	-	-	-	12	-
Total assets	747	(19)	-	116	-	(130)	36	750	250
Liabilities									
Liabilities with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	11	1	-	-	-	(2)	1	11	(1)
Other	134	42	-	10	-	(8)	-	178	9
Currency contracts	503	21	-	89	-	(146)	-	467	(235)
Contracts for shares	83	4	-	12	-	(21)	-	78	-
Commodities and other contracts	1	1	-	-	-	(1)	-	1	-
Other	14	(2)	-	-	-	(7)	-	5	-
Total liabilities	746	67	-	111	-	(185)	1	740	(227)

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss 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 gain (loss) included, net[1]							
	Fair value as of December 31, 2013	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2014	Unrealized gain (loss) 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 derivatives[2][3]									
Interest contracts:									
NIS / CPI	56	117	-	23	-	(122)	45	119	104
Other	67	(17)	-	13	-	(5)	-	58	40
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 derivatives[2][3]									
Interest contracts:									
NIS / CPI	11	6	-	1	-	(12)	4	10	(10)
Other	134	17	-	31	-	(9)	-	173	(11)
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 gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss 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 March 31, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	202	Cash flow discounting	Probability of default	0.35%-1.05%	0.91%
Debentures of foreign others	16	Cash flow discounting	Discount rate	5.23%	5.23%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	121	Cash flow discounting	Inflationary expectations	0.69% - 0.71%	0.70%
Contracts for shares	10	Option pricing model	Standard deviation for shares	96.75% - 85.60%	91.1%
Other	1,010	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.73%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	4	Cash flow discounting	Inflationary expectations	0.69% - 0.70%	0.69%
Other	1,637	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.67%

	Fair value as of March 31, 2014	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	176	Cash flow discounting	Probability of default	0.37% - 1.39%	1.17%
Debentures of foreign others	23	Cash flow discounting	Discount rate	3.84% - 5.31%	5.01%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	119	Cash flow discounting	Inflationary expectations	1.53% - 1.56%	1.54%
Contracts for shares	12	Option pricing model	Standard deviation for shares	8.49% - 33.54%	22.1%
Other	420	Cash flow discounting	Counter-party credit quality	1.20% - 3.10%	1.84%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	10	Cash flow discounting	Inflationary expectations	1.53% - 1.56%	1.53%
Other	730	Cash flow discounting	Counter-party credit quality	1.20% - 3.10%	1.95%

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 December 31, 2014	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	199	Cash flow discounting	Probability of default	0.22% - 1.23%	1.11%
Debentures of foreign others	16	Cash flow discounting	Discount rate	6.02%	6.02%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	73	Cash flow 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 flow discounting	Counter-party credit quality	0.30% - 3.10%	1.72%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	4	Cash flow discounting	Inflationary expectations	0.35% - 0.36%	0.35%
Other	1,038	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.71%

Note 10 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 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 classified with the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made for 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 financial derivatives 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)

The following table lists the fair value of items measured at fair value due to election of the fair value option:

	Fair value as of March 31, 2015	Gain with respect to change in fair value for the three months ended March 31, 2015
Securities available for sale	-	6

	Fair value as of March 31, 2014	Gain with respect to change in fair value for the three months ended March 31, 2014
Securities available for sale	510	9

	Fair value as of December 31, 2014	Profit with respect to change 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 March 31, 2015	For the three months ended March 31, 2014	For the year ended December 31, 2014
	(unaudited)		(audited)
A. Interest revenues[1]			
From loans to the public	493	926	5,129
From loans to Governments	2	3	9
From deposits with the Bank of Israel	9	36	108
From deposits with banks	3	8	13
From securities loaned or sold in repurchase agreements	-	1	1
From debentures	43	17	87
Total interest revenues	550	991	5,347
B. Interest expenses			
On deposits from the public	(44)	234	1,393
On deposits from governments	1	1	3
On deposits from banks	1	6	18
On debentures and subordinated notes	(97)	36	556
From other liabilities	(10)	1	2
Total interest expenses	(149)	278	1,972
Total interest revenues, net	699	713	3,375
C. Details of net effect of hedging financial derivatives on interest revenues	71	(26)	(46)
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	13	7	33
Available for sale	25	6	45
Held for trade	5	4	9
Total included under interest revenues	43	17	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	March 31,	For the year ended December 31,
	2015	2014	2014
		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations			
1. From activity in derivatives			
Non-effective element of hedging ratios[1]	4	-	3
Net revenues (expenses) with respect to ALM derivatives[2]	272	83	1,373
Total from activity in derivatives	276	83	1,376
2. From investment in debentures			
Gain on sale of debentures available for sale	92	19	110
Total from investment in debentures	92	19	110
3. Exchange rate differences, net	(234)	(52)	(1,566)
4. Gain (loss) from investment in shares			
Gains on sale of available-for-sale shares	-	-	5
Provision for impairment of available-for-sale shares	-	-	(2)
Dividends from available-for-sale shares	2	2	8
Total from investment in shares	2	2	11
Total non-interest financing revenues (expenses) with respect to non-trade operations	136	52	(69)

(1) Excludes the effective element in the hedging ratios.

(2) Derivatives 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 March 31,		For the year ended December 31,
	2015	2014	2014
		(unaudited)	(audited)
B. Non-interest financing revenues with respect to trade operations[1]			
Net revenues (expenses) with respect to other derivatives	(16)	20	238
Realized gain from adjustment to fair value of debentures held for trade, net	9	19	37
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	(4)	(10)	(33)
Total from trade operations[2]	(11)	29	242
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure			
Risk exposure	6	10	25
Foreign currency exposure	(26)	4	206
Exposure to shares	9	19	12
Exposure to commodities and others	-	(4)	(1)
Total	(11)	29	242

(1) Includes exchange rate differentials resulting from trade operations.

(2) For interest revenues from investment in debentures held for trade, see Note 11.D.

Note 13 – Operating Segments

For the three months ended March 31, 2015 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds	Private banking	Small business	Commer-cial banking	Business banking	Financial managem ent	Total conso-lidated
Interest revenues, net:							
From outside operating segments	92	6	144	41	184	232	699
Inter-segment	377	9	(16)	-	7	(377)	-
Total interest revenues, net	469	15	128	41	191	(145)	699
Non-interest financing revenues	1	-	-	-	7	117	125
Commissions and other revenues	182	18	63	14	61	39	377
Total revenues	652	33	191	55	259	11	1,201
Expenses with respect to credit losses	-	1	29	8	(4)	1	35
Operating and other expenses							
From outside operating segments	458	20	132	14	59	84	767
Inter-segment	(27)	1	(12)	14	21	3	-
Other operating expenses - total	431	21	120	28	80	87	767
Pre-tax profit	221	11	42	19	183	(77)	399
Provision for taxes on profit	81	4	15	6	67	(28)	145
After-tax profit	140	7	27	13	116	(49)	254
Share in net profits of associates, after tax	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	140	7	27	13	116	(50)	253
Attributable to non-controlling interest	(9)	-	-	-	-	-	(9)
Attributable to equity holders of the banking corporation	131	7	27	13	116	(50)	244
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	8.9%	36.9%	19.6%	12.7%	13.8%	-	9.2%
Average asset balance	112,367	1,950	9,030	4,365	26,718	42,490	196,920
Of which: Investments in associates	-	-	-	-	-	45	45
Average balance of liabilities	68,759	9,240	12,342	4,873	46,575	45,201	186,990
Average balance of risk assets (1)	69,032	943	6,431	4,702	38,486	5,854	125,448
Average balance of provident and mutual fund assets	-	-	-	-	-	95,690	95,690
Average balance of securities (2)	40,417	3,200	14,152	4,160	77,862	84,938	224,729
Average balance of loans to the public	112,336	1,012	8,958	4,312	22,477	-	149,095
Average balance of deposits from the public	65,923	8,658	11,919	4,807	46,488	14,586	152,381
Loans to the public, net (end balance)	113,819	939	9,216	4,419	22,301	-	150,694
Deposits from the public (end balance)	66,455	8,939	11,804	4,980	47,746	13,078	153,002
Average balance of other assets managed(3)	9,754	6	141	240	1,693	-	11,834

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	Private banking	Small business	Commer-cial banking	Business banking	Financial managem ent	Total conso-lidated
Margin from credit granting operations	410	6	120	39	165	-	740
Margin from receiving deposits	51	9	8	2	16	-	86
Other	8	-	-	-	10	(145)	(127)
Total interest revenues, net	469	15	128	41	191	(145)	699

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation 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 loans. 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 three months ended March 31, 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	466	10	124	47	144	(78)	713
Inter-segment	(20)	4	(1)	(6)	49	(26)	-
Total interest revenues, net	446	14	123	41	193	(104)	713
Non-interest financing revenues	2	-	-	-	5	74	81
Commissions and other revenues	177	14	55	13	60	38	357
Total revenues	625	28	178	54	258	8	1,151
Expenses with respect to credit losses	4	-	22	(1)	(32)	2	(5)
Operating and other expenses							
From outside operating segments	433	19	125	16	50	79	722
Inter-segment	(28)	3	(13)	15	19	4	-
Other operating expenses - total	405	22	112	31	69	83	722
Pre-tax profit	216	6	44	24	221	(77)	434
Provision for taxes on profit	79	2	16	9	81	(28)	159
After-tax profit	137	4	28	15	140	(49)	275
Share in net profits of associates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	137	4	28	15	140	(48)	276
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
Attributable to equity holders of the banking corporation	129	4	28	15	140	(48)	268
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	10.1%	25.3%	25.0%	15.0%	18.8%	-	11.3%
Average asset balance	104,043	1,989	7,737	4,474	25,017	36,629	179,889
Of which: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	63,951	7,588	9,676	3,823	43,780	43,149	171,967
Average balance of risk assets(2)	62,465	779	5,505	4,768	37,370	5,015	115,902
Average balance of provident and mutual fund assets	-	-	-	-	-	72,647	72,647
Average balance of securities (3)	37,094	1,925	11,027	4,514	64,541	68,306	187,407
Average balance of loans to the public	104,021	926	7,503	4,468	22,417	-	139,335
Average balance of deposits from the public	60,931	7,516	9,648	3,804	42,847	16,899	141,645
Loans to the public, net (end balance)	105,140	975	8,052	4,499	22,395	-	141,061
Deposits from the public (end balance)	61,043	7,603	9,818	3,877	44,794	18,566	145,701
Average balance of other assets managed(4)	10,531	7	183	381	216	-	11,318

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	346	6	102	36	155	-	645
Margin from receiving deposits	86	8	14	3	24	-	135
Other	14	-	7	2	14	(104)	(67)
Total interest revenues, net	446	14	123	41	193	(104)	713

(1) Re-stated 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 Regulation No. 201).
(3) Average balance of client 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 transactions presented, includes in addition to the balance of securities of mutual funds, as noted above, also the value of participation units in such funds, which are held by Bank clients.
(4) Includes:
- Credit balances backed by deposits whose refund to depositors is contingent on collection of outstanding credit. With respect to these balances, the Bank earns margin or commission revenues.
- Other loans managed by the Bank.

(5) Re-classified.

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	Commer-cial banking	Business banking	Financial management	Total conso-lidated
Interest revenues, net:							
From outside operating segments	2,969	1	495	173	509	(772)	3,375
Inter-segment	(1,097)	62	22	(12)	235	790	-
Total interest revenues, net	1,872	63	517	161	744	18	3,375
Non-interest financing revenues	6	1	-	1	18	147	173
Commissions and other revenues	719	62	233	45	241	139	1,439
Total revenues	2,597	126	750	207	1,003	304	4,987
Expenses with respect to credit losses	94	3	98	(10)	(3)	(9)	173
Operating and other expenses							
From outside operating segments	1,821	80	526	55	219	326	3,027
Inter-segment	(115)	4	(54)	59	89	17	-
Other operating expenses - total	1,706	84	472	114	308	343	3,027
Pre-tax profit	797	39	180	103	698	(30)	1,787
Provision for taxes on profit	295	14	66	38	258	(11)	660
After-tax profit	502	25	114	65	440	(19)	1,127
Share in net profits of associates, after tax	-	-	-	-	-	5	5
Net profit:							
Before attribution to non-controlling interest	502	25	114	65	440	(14)	1,132
Attributable to non-controlling interest	(31)	-	-	-	-	-	(31)
Attributable to equity holders of the banking corporation	471	25	114	65	440	(14)	1,101
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	8.4%	33.1%	22.1%	15.4%	12.8%	-	10.6%
Average asset balance	107,367	2,143	8,287	4,396	25,666	39,959	187,818
Of which: Investments in associates	-	-	-	-	-	52	52
Average balance of liabilities	65,452	8,592	10,654	4,114	46,002	43,358	178,172
Average balance of risk assets (1)	65,370	840	5,734	4,700	38,162	5,245	120,051
Average balance of provident and mutual fund assets	-	-	-	-	-	87,171	87,171
Average balance of securities (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	Commer-cial banking	Business banking	Financial management	Total conso-lidated
Margin from credit granting operations	1,505	24	443	145	615	-	2,732
Margin from 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) Re-stated 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 Regulation 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 loans. With respect to these balances, the Bank receives margin revenues or commissions.
- Other loans managed by the Bank.

(5) Re-classified.

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	Net gain from cash flow hedges	Adjustments for employee rights	Total	Other comprehensive income attributed to non-controlling interest	Other comprehensive income attributable to equity holders of the banking corporation
							For the three months ended March 31, 2015
							(unaudited)
Balance as of December 31, 2014	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	40	-	(10)	(47)	(17)	(1)	(16)
Balance as of March 31, 2015	45	1	8	(149)	(95)	(7)	(88)
							For the three months ended March 31, 2014
							(unaudited)
Balance as of December 31, 2013	12	(3)	3	(73)	(61)	(4)	(57)
Net change in the period	(4)	-	5	(12)	(11)	1	(12)
Balance as of March 31, 2014	8	(3)	8	(85)	(72)	(3)	(69)
							For the year ended December 31, 2014
							(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 the new rules	-	-	3	(61)	(58)	(2)	(56)
Net change during the period	12	(3)	-	(12)	(3)	(2)	(1)
Balance as of December 31, 2013	12	(3)	3	(73)	(61)	(4)	(57)

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 March 31,		
	2015		
	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 gain (loss) from adjustments to fair value	155	(58)	97
Loss (gain) with respect to available-for-sale securities reclassified to the statement of profit and loss(2)	(92)	35	(57)
Net change in the period	63	(23)	40
Adjustments from translation of financial statements			
Adjustments from translation of financial statements(3)	-	-	-
Net change in the period	-	-	-
Cash flow hedges			
Net gain (loss) with respect to cash flow hedges	(15)	5	(10)
Net (gain) loss reclassified to the statement of profit and loss(4)	-	-	-
Net change in the period	(15)	5	(10)
Employee benefits			
Net actuarial gain (loss)	(79)	31	(48)
Net (gain) loss re-classified to profit and loss	1	-	1
Net change during the period	(78)	31	(47)
Total net change in the period	(30)	13	(17)
Total net change in the period attributable to non-controlling interest	3	(2)	1
Total net change in the period attributable to equity holders of the Bank	(27)	11	(16)

(1) Re-stated. For more information about adoption of US GAAP with regard to employee rights, see Note 1.C.
(2) The pre-tax amount is reported on the statement of profit and loss under "Non-interest financing revenues". For more information see Note 12.A.2.
(3) Adjustments from translation of financial statements of associated whose functional currency differs from the Bank's.
(4) The pre-tax amount is reported on the statement of profit and loss under "Interest revenues". For more information see Note 11.C.

	For the three months ended March 31,			For the year ended December 31,		
			2014(1)			2014(1)
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	13	(5)	8	100	(38)	62
	(19)	7	(12)	(110)	41	(69)
	(6)	2	(4)	(10)	3	(7)
	-	-	-	6	(2)	4
	-	-	-	6	(2)	4
	10	(4)	6	30	(10)	20
	(2)	1	(1)	(7)	2	(5)
	8	(3)	5	23	(8)	15
	(20)	8	(12)	(47)	17	(30)
	-	-	-	1	-	1
	(20)	8	(12)	(46)	17	(29)
	(18)	7	(11)	(27)	10	(17)
	(1)	-	(1)	3	(1)	2
	(19)	7	(12)	(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.

The proceeds from this issuance were deposited at the Bank under terms similar to those of the issuance.

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5.2015