2014 Annual Report

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This translation of the financial statement is for convenience purposes only.

The only binding version of the financial statement is the Hebrew version

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Report of the Board of Directors

Submitted to the General Meeting of Shareholders

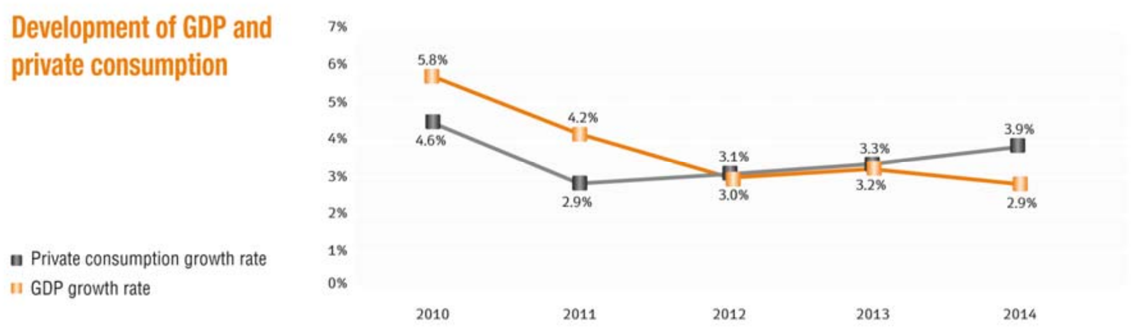
At the meeting of the Board of Directors held on March 9, 2015, it was resolved to approve and publish the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of December 31, 2014.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

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

Developments in Israel's Economy in 2014

Real Developments

In 2014, the economic growth slowed down. According to a preliminary estimate by the Central Bureau of Statistics for the second half of 2014, Israeli GDP growth in 2014 was 2.9%, compared to 3.2% growth in 2013 and 3.0% growth in 2012. Business output grew by 2.9% in 2014, compared to 3.4% in 2013 and similar to 2012. GDP growth in 2014 was primarily due to lower investment in fixed assets (negative investment of 2.3%, compared to positive investment of 1.1% in the previous year), while private consumption grew by 3.9% compared to 3.3% in the previous year.



During the Protective Edge military operation, economic activity in the South and Central regions suffered. According to estimates by the Bank of Israel, business shut-downs and lower economic activity in the tourism and restaurant sector and in small businesses resulted in loss of GDP estimated at 0.3% of GDP.

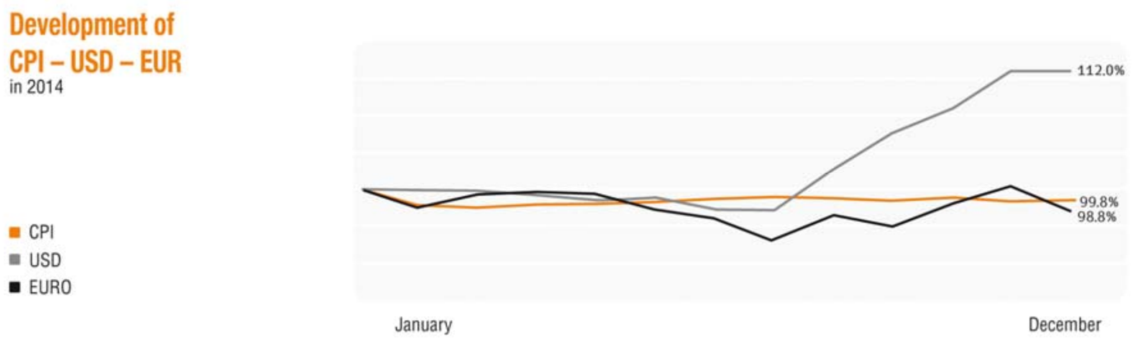
Exports of goods (original data in USD, excluding ships, airplanes and diamonds) increased in 2014 by a moderate 0.8% after growing by 4.0% in 2013. Conversely, import of services (original data in USD, excluding ships, airplanes, diamonds and energy materials) increased by 4.4%, following a decrease of 1.0% in 2013. The trade deficit in 2014 amounted to USD 13.8 billion, compared to USD 14.2 billion last year - a decrease of 3.4%.

In 2014, the average unemployment rate was 5.9%, compared to 6.2% last year. This was concurrent with an increase in the employment rate, from an average 63.7% in 2013 to an average 64.2% in 2014.

Inflation and exchange rates

In 2014, the Consumer Price Index decreased by 0.2%, compared to an increase of 1.8% last year. The lower CPI was due to lower prices of fruits and vegetables (-9.3%), food (-2.5%) and transportation and communications (-0.9%). Conversely, the highest price increase was in housing (3.1%). CPI Components reflecting traded goods decreased by 1.9%, while components reflecting non-traded goods increased by 0.7% - primarily due to higher housing prices.

Below is the evolution of annual change in the Consumer Price Index in 2009-2014:



Below is information about official exchange rates and their changes:

	December 31, 2014	December 31, 2013	Change in %
Exchange rate of:			
USD (in NIS)	3.889	3.471	12.0
EUR (in NIS)	4.725	4.782	(1.2)

In support of the exchange rate, the Bank of Israel purchased in 2014 foreign currency valued at USD 7.0 million, after purchasing USD 5.3 billion in 2013 (of which: foreign currency purchasing to offset the effect on exchange rates of natural gas production from the Tamar reservoir, amounted to USD 3.5 billion in 2014, compared to USD 2.1 billion last year). On March 4, 2015, the USD/NIS exchange rate was 3.984 - a 2.4% devaluation since the end of 2014. The EUR/NIS exchange rate on said date was 4.431 - a 6.2% revaluation since the end of 2014.

Monetary and fiscal policies

In 2014, the Bank of Israel lowered its interest rate three times, from 1.00% at the end of 2013 to 0.25% in September 2014 - given the inflation rate which is below the center of the stability target band, the strong NIS and continuing expansive monetary policy in major economies.

In 2014, the Government budget deficit amounted to NIS 29.9 billion, or 2.8% of GDP, compared to a NIS 33.2 billion deficit last year (3.2% of GDP). Note that the deficit target for 2014 was at 3.0% of GDP. Tax revenues increased in 2014 by 5.9% over the previous year, while Government expenditure increased by 3.5% in the same period.

On February 23, 2015, the Monetary Committee resolved to once again reduce the Bank of Israel interest rate – to 0.1%. According to the statement issued by the Bank of Israel, “given the faster revaluation of the NIS and its potential implications for economic activity and inflation, reducing the interest rate to 0.1% is the most appropriate step, at this time, in support of policy targets.”

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2014 demand for new apartments (apartments sold and apartments constructed not for sale) was 40,560 apartments, a decrease of 8.6% over the previous year and a decrease of 5.3% over 2012. This is also due to uncertainty in the market with regard to Government programs and their materialization, such as the "0% VAT" and "Target Price" programs. In this period, most regions recorded a decrease in demand for housing; the most significant decline, at 20.7%, was in the Southern region. Conversely, demand for housing in the Tel Aviv region increased by 4.9%. Based on the average pace of sales in the six months ended December 2014, the housing inventory would account for 11.4 months' sales - lower than 12.2 months in December 2013. In 2014, housing loans to the public amounted to NIS 51.6 billion, similar to NIS 51.7 in loan origination last year.
According to data from the Central Bureau of Statistics, after housing prices trended higher, year-over-year, from 7.3% in January 2014 to 9.0% in May 2014, as from June, data indicated a faster pace, at 4.6% in September 2014. Overall, housing prices increased by 4.5% in 2014.

Capital market

In early 2014 prices trended higher, but in the final quarter this trend was reversed, with most equity benchmarks decreasing - following price increases in 2012 and 2013, both in Israel and overseas.
Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were higher in 2014 by 10.2% and 6.7%, respectively, compared to an increase of 12.1% and 15.1% in 2013. The Tel Aviv 75 Index was lower by 10.2%, compared to an increase of 24.7% in 2013. The Real Estate 15 Index was moderately higher by 0.9%, compared to an increase of 26% in 2013. The Yeter 50 Index declined by 11.5% after being up by
35.6% in the previous year. Financial stocks were also lower: The Banking and Financials 15 indices were down by 5.6% and 7.7%, respectively, compared to increases of 16.3% and 18.8% in 2013.
The average daily trading volume in shares and convertible securities in 2014 was NIS 1.2 billion, similar to 2013. In the final quarter of 2014, trading volumes increased and the average daily trading volume was NIS 1.4 billion, compared to NIS 1.3 billion in the final quarter of 2013.
Share issuance (excluding shares issued overseas) increased moderately, amounting to NIS 8.7 billion in 2014, compared to NIS 7.7 billion in 2013.

Debenture market - the Government debenture market was higher in 2014 as well, due to lower interest rates, low inflation in Israel and low interest and yield environments overseas. The upward trend changed late in the year, with most debenture indices decreasing in the final quarter. Long-term debentures were up more sharply than short-term debentures. Corporate debenture benchmarks increased less than government debentures.

The General Debenture Index was up by 4.7% in 2014, after rising by 5.4% in 2013. The CPI-Linked Government Debenture Index rose in 2014 by 5.8%, after rising by 3.0% in 2013. The Non-Linked Debenture Index was up by 7.2%, following an increase of 4.0% in 2013. The major Tel Bond indices were also higher for the year, despite being lower in the fourth quarter. In 2014, the Tel Bond 20 Index was up by 1.0%, compared to an increase of 5.9% in 2011, and the Tel Bond 40 Index rose in 2014 by 0.6%, compared to an increase of 6.9% in 2013.

The low interest rate environment affected corporate debentures, with further lower spreads of their yield to maturity compared to Government debentures: Debentures rated AA traded at the end of 2014 at a yield spread of 0.80 percentage points, similar to the spread at the end of 2013 - after recording even lower spreads during the year; debentures rated A traded at a yield spread of 2.61 percentage points, compared to 1.96 percentage points at the end of 2013 - in line with higher yields in the final quarter of 2014.

In total, the business sector raised from the public and from institutional investors by debenture issuance some NIS 57.7 billion in 2014, significantly higher than the NIS 36.7 billion raised in 2013. The average daily trading volume in debentures in 2014 amounted to NIS 4.3 billion, similar to 2013.

Global economy

In 2014, the US economy continued to recover. US GDP grew by 2.4% in 2014, compared to 2.2% in 2013 and to 2.3% in 2012. Growth was positively impacted by an increase in exports and investments and by improvement in private consumption. The growth rate in 2014 was variable: The growth rate in the final quarter was 2.6%, compared to 5.0% in the third quarter, 4.6% in the second quarter and negative 2.1% growth in the first quarter. Following the negative impact of severe weather in the first quarter, economic indicators in the USA were mostly positive, with continued improvement in industrial output, retail, expectation surveys and unemployment rate. However, participation in the labor force continues to decline and salaries are increasing at a slow pace. The US Federal Reserve has ended its purchase program in October 2014; Fed interest rates in the USA are expected to start rising in the third quarter of 2015.

In 2014, the Euro Zone economy continued to stagnate. GDP in the Euro Zone grew by a moderate 0.9%, compared to 0.5% negative growth in the previous year. In the first half of 2014, unemployment in the Euro Zone decreased moderately, from 11.8% in January 2014 to 11.5% in June 2014, after which it remained unchanged until December - when is decreased moderately to 11.4%. The inflation rate in 2014 declined to a new low of (-0.2%). Against the back-drop of slow recovery of the Euro Zone economy, slow demand and the low inflation, the ECB announced in the second quarter of this year that it would take several monetary steps to stimulate the European credit market: Interest in the Euro Zone would be lowered by 0.1% to 0.15%; negative interest at -0.1% for short-term deposits by commercial banks with the central bank; interest for loans taken by banks from the central bank would be lowered by 0.35 percentage points to a record low of 0.4%. In addition to these steps and given the inflation rate which has entered negative territory, the European Central Bank announced, in January 2015, that it would launch a quantitative expansion move at EUR 60 billion per month, for 18 months as from March 2015.

In 2014, economic growth in China became more moderate. GDP growth in China in 2014 was at 7.4%, compared to 7.7% in the previous year - against the backdrop of weaker industrial output and retail sales, while foreign trade improved to a certain degree. Inflation in 2014 slowed down to 1.5%, compared to 2.5% in the previous year.

The Dow Jones Index rose by 8.3% in 2014, compared to 26.5% in 2013. The S&P 500 Index rose in 2014 by 12.6%, compared to 29.6% in 2013. The NASDAQ 100 Index rose in 2014 by 18.9%, compared to 35.0% in 2013.

The UK FTSE 100 Index and the French CAC Index decreased in 2014 by 2.7% and 0.5%, respectively - after increasing by 14.4% and 18.0% in 2013. The German DAX benchmark continued to increase in 2014 by 2.7%, after increasing by 25.5% in 2013. In Japan, the Nikkei Index was up by 7.1% in 2014, compared to an increase of 56.7% in 2013.

Key Data for Bank Group

Evolution of revenues and expenses

	For the year ended December 31,			Change in % over	
	2014	2013	2012	2013	2012
					NIS in millions
Profit and profitability - major items					
Interest revenues, net	(1)3,375	3,464	3,214	(2.6)	5.0
Non-interest financing revenues	173	14	95	-	-
Commissions and other revenues	(1)1,439	1,485	1,478	(3.1)	(2.6)
Total revenues	4,987	4,963	4,787	0.5	4.2
Expenses with respect to credit losses	173	288	276	(39.9)	(37.3)
Operating and other expenses	3,032	2,957	2,786	2.5	8.8
Profit before provision for taxes	1,782	1,718	1,725	3.7	3.3
Provision for taxes	673	592	599	13.7	12.4
Net profit(2)	1,083	1,078	1,076	0.5	0.7

	For the year ended December 31,			Change in % over	
	2014	2013	2012	2013	2012
					NIS in millions
Balance sheet - key items					
Balance sheet total	198,564	179,613	162,242	10.6	22.4
Loans to the public, net	147,569	138,565	128,651	6.5	14.7
Securities	14,259	7,000	9,041	103.7	57.7
Deposits from the public	152,379	141,244	128,081	7.9	19.0
Debentures and subordinated notes	20,580	16,443	14,039	25.2	46.6
Equity(2)	10,987	9,852	8,811	11.5	24.7

	2014	2013	2012
Key financial ratios (in percent)			
Net profit return on equity	10.4	11.5	13.1
Deposits from the public to loans to the public, net	103.3	101.9	99.6
Capital to total assets	5.53	5.49	5.43
Ratio of Tier I capital to risk elements	(3)9.12	9.01	8.55
Total ratio of capital to risk elements	(3)13.03	13.04	13.35
Cost income ratio(4)	60.8	59.6	58.2
Expenses with respect to credit losses to loans to the public, net for the period	0.12	0.21	0.21
Basic net earnings per share	4.70	4.72	4.77
Diluted net earnings per share	4.68	4.69	4.74

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.
(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to equity holders of the Bank.
(3) In conformity with Basel III directives
(4) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

Evolution of revenues and expenses

	For the quarter ended				
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
	NIS in millions				
Profit and profitability - major items					
Interest revenues, net	[(1)]846	[(1)]893	[(1)]923	[(1)]713	784
Non-interest financing revenues (expenses)	43	51	(2)	81	23
Commissions and other revenues	[(1)]383	[(1)]354	[(1)]345	[(1)]357	380
Total revenues	1,272	1,298	1,266	1,151	1,187
Expenses with respect to credit losses	150	5	23	(5)	5
Operating and other expenses	766	792	747	727	779
Profit before provision for taxes	356	501	496	429	403
Provision for taxes	139	189	187	158	140
Net profit[(2)]	213	304	302	264	252

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
	NIS in millions				
Balance sheet - key items					
Balance sheet total	198,564	195,141	188,158	184,754	179,613
Loans to the public, net	147,569	146,699	143,353	141,061	138,565
Securities	14,259	12,579	9,744	6,519	7,000
Deposits from the public	152,379	150,648	148,063	145,701	141,244
Debentures and subordinated notes	20,580	21,059	19,120	17,887	16,443
Equity[(2)]	10,987	10,779	10,418	10,130	9,852

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Key financial ratios (in percent)					
Net profit return on equity[(3)]	8.1	12.0	12.3	11.0	10.8
Cost income ratio[(4)]	60.2	61.0	59.0	63.2	65.6
Expenses with respect to credit losses to loans to the public, net for the period[(3)]	0.41	0.01	0.06	(0.01)	0.01
Basic net earnings per share	0.92	1.32	1.31	1.15	1.10
Diluted net earnings per share	0.92	1.31	1.30	1.14	1.09

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

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

(3) Calculated on annualized basis.

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

Bank Group Operations and Description of its Businesses Development

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", "need", "could", "will be" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire". These forward-looking information and expressions involve risk and lack of certainty, because they are based on management's assessment 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 Bank of Israel data and on various forecasts and assessments on various topics with regard to the future.

Bank Group

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

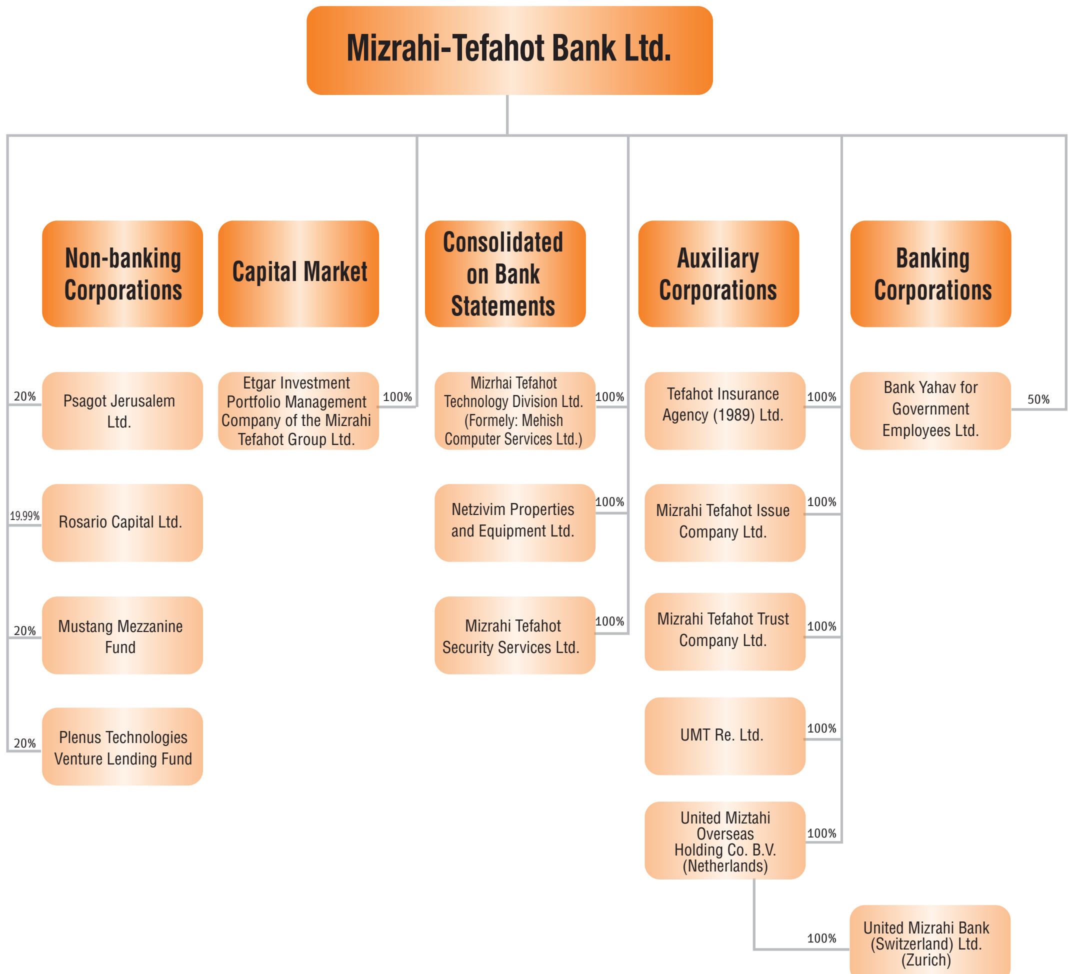
The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 176 branches and business centers. Furthermore, business clients are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via 4 bank affiliates (three branches and a subsidiary) and 4 representative offices in Europe and Latin America.

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

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2014):

Loans to the public	17.4%
Deposits from the public	15.8%
Balance sheet total	15.2%
Shareholder equity	11.9%

Holding Structure - Major Companies [1]:



For further information about organizational changes in the Group, see Note 6 to the financial statements.

[1] The Bank has holdings in other companies which are not material to Bank operations.

Control of the Bank Group

To the best of the knowledge of the Bank and the Board of Directors, the holding stakes of controlling shareholders of the Bank, as of December 31, 2014, are as follows:

	Holder	No. of shares	% of capital and voting rights
Wertheim Group	M.W.Z. (Holdings) Ltd.[(1)]	20,585,785	8.92
	F & W (Registered Partnership)[(2)]	30,042,844	13.02
	Total Wertheim Group	50,628,629	21.94
Ofer Group	C.A.B.M. Ltd.[(3)]	7,138,594	3.09
	L.A.B.M. (Holdings) Ltd.[(4)]	7,814,717	3.39
	A.A.B.M. Ltd.[(5)]	15,313,435	6.64
	Ofer Investments Ltd.[(6)]	14,461,819	6.27
	Ofer Sahaf Ltd.[(7)]	7,477,642	3.24
	Total Ofer Group	52,206,207	22.63
	Total holding stake of controlling shareholders	102,834,836	44.57
Total shares issued by the Bank		[(8)]230,719,413	100.00%

(1) A private company owned (100%) by Mr. Moshe Wertheim.

(2) A registered partnership held by Mr. Moshe Wertheim (1%) and by M.W.Z. (Holdings) Ltd (99%).

(3) A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Holdings Properties Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd. Ofer Holdings Properties Ltd. is a private company wholly-owned and controlled by Ofer Holdings (1989) Ltd. ("Ofer Holdings"). Ofer Holdings is a private company held by the Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (Holdings) Ltd. (33.33%) (see also footnotes 4 and 6 below).

(4) A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd. ("L.I.N."), which is a private company owned by a foreign trust whose main benefactor, with regard to Bank shares, is Mr. Eyal Ofer (95%) and a foreign-resident company (5%). The foreign trust has given Mr. Eyal Ofer power-of-attorney to vote at General Meetings of L.I.N. with regard to issues concerning the control permit of the Bank, Bank shares directly and indirectly owned by L.I.N., appointment of Board members at the Bank and all matters concerning the Bank. The power-of-attorney gives Eyal Ofer full authority to act on these matters as he sees fit.

(5) A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Holdings (see also footnote 3 above).

(6) A private company, the shares of which are held by Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (33.33%) (see also footnote 4 above).
Prior to the death of Mr. Yuli Ofer RIP, he together with his children, Liora Ofer and Doron Ofer, were the controlling shareholders of Ofer Investments and Ofer Holdings. Upon the death of Mr. Yuli Ofer RIP on September 11, 2011, his shares of Ofer Investments and Ofer Holdings became part of his estate, such that the controlling shareholder of Ofer Investments and Ofer Holdings is the Mr. Yuli Ofer RIP estate, through the temporary estate administrators - subject to decisions by the Court.
On December 18, 2013, the Family Affairs Court issued an order to execute the will of Mr. Yuli Ofer RIP. As of this date, the Yuli Ofer RIP estate continues to hold the shares held by Mr. Yuli Ofer RIP. Shares of Ofer Investments and Ofer Holdings would be transferred to Ms. Liora Ofer, in conformity with the aforementioned will, subject to instructions by the Court. On January 30, 2014, Doron Ofer and his children appealed the aforementioned verdict to the Tel Aviv-Yafo District Court as an Appelate Court for Civil Appeals.

(7) A private company wholly-owned and controlled by Ofer Investments Ltd.

(8) Excludes 2,500,000 dormant shares bought back by the Bank in 2009.

Shareholder agreements

Between A.A.B.M. Ltd., C.A.B.M. Ltd., and L.A.B.M. (Holdings) Ltd. as the first party (hereinafter: ("Ofer Group") and between Feinberg-Wertheim (Registered Partnership) as the other party ("Wertheim Group") for cooperation in exercising rights associated with Bank shares ("voting agreement"). The aforementioned voting agreement stipulates, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Ofer Group

On January 17, 2013 the Bank received a notice from Ofer Investments Ltd. (hereinafter: "Ofer Investments") with regard to a permit dated January 15, 2013 given by the Governor of the Bank of Israel, for holding control and means of control over the Bank by the Ofer Group (as defined in the control permit - i.e. Eyal Ofer, Doron Ofer, Liora Ofer and the estate of Yuli Ofer RIP managed by temporary estate administrators, Attorneys Zvi Efrat and Reuven Bachar) and by the Wertheim Group (i.e. Mr. Moshe Wertheim), pursuant to the Banking Act (Licensing), 1981 (hereinafter: "the new permit"). On this matter, see the report issued by the Bank on January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

Through the receipt date of the new permit, Ofer Group held Bank shares (controlling interest shares and non-controlling interest shares) through Ofer Investments and its subsidiaries, and through L.I.N. (Holdings) Ltd. (hereinafter: "L.I.N") and its subsidiary. Upon receiving the new permit, the outline of change in the Bank holding structure came into effect, referring only to holding of Bank shares by Ofer Investments, to separation of the holding of the controlling interest shares of the Bank from other operations of Ofer Investments, including holding of real estate properties (hereinafter: "new structure change"). The new structure change includes transfer of the controlling interest shares of the Bank (indirectly held by Ofer Investments) to be indirectly held by a sister company of Ofer Investments, Ofer Holdings (1989) Ltd. (hereinafter: "Ofer Holdings"). Resulting from the new structure change, Ofer Investments would continue to hold ordinary Bank shares (not part of the controlling interest), directly and through a subsidiary. For more information see footnote 6 to the above table showing control of the Bank Group.

New cooperation agreement between individuals of Ofer Group and corporations under their control

As Ofer Investments informed the Bank, upon receiving the new permit and implementing the new structure change, a new cooperation agreement became effective between individuals of Ofer Group and corporations under their control, who hold Bank shares directly and indirectly. The new cooperation agreement replaces previous agreements between the parties. In the aforementioned agreement, the parties agree that relations with regard to Bank holdings, control over the Bank and management rights between Yuli Group (recipients of the control permit from family of Yuli Ofer RIP, including temporary or permanent administrators of his estate, pending distribution of shares owned by Yuli Ofer RIP) (hereinafter: "Yuli Group") and L.I.N (in which Eyal Ofer has power of attorney to act with regard to Bank business), would be shared on 50-50 basis, so that the Board member quota of Ofer Group would be equally divided between L.I.N and Yuli Group, and no decisions would be made by Ofer Group with regard to any Bank-related matter without mutual consent of L.I.N and Yuli Group. For more information, see section 3 in the Bank's Immediate Report dated January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

The notice from Ofer Investments to the Bank further indicated that Ofer Investments and Ofer Sahaf Ltd. (who would continue to hold non-controlling interest Bank shares) have committed, in the new co-operation agreement, to act pursuant to provisions of the control permit, as these may be from time to time, if applicable to them, including to only exercise voting rights with respect to Bank shares they hold in accordance with the decision made with regard to exercise of voting rights with respect to controlling interest Bank shares. Moreover, these companies committed that, should their shares be offered in future to the public, their aforementioned commitment would be reflected in the prospectus to be made public. For more information see footnote 6 to the above table showing control of the Bank Group.

Wertheim Group

On February 17, 2013, Mr. Moshe (Mosie) Wertheim informed the Bank that he had gifted to his children his shares and holdings of corporations holding Bank shares which are part of the controlling interest in the Bank, M.W.Z (Holdings) Ltd. and F&W (Registered Partnership), as follows: to Mr. David Wertheim - 63% of his holding stake, and to Ms. Drorit Wertheim 37% of his holding stake.

According to Mr. Moshe Wertheim's notice to the Bank, this transfer of shares is subject, inter alia, to obtaining a control permit from the Governor of the Bank of Israel, pursuant to the Banking Act (Licensing), 1981.

On January 18, 2015, the Bank received notice from Mr. Wertheim, whereby a letter, received on January 15, 2015 from the Supervisor of Banks at the Bank of Israel, indicates that for legal and procedural reasons, the Supervisor of Banks is unable to recommend that the Governor of the Bank of Israel grant the requested permit. Accordingly, Mr. Moshe (Mosie) Wertheim would continue to hold the control permit at the Bank - as prior to this notice by the Supervisor of Banks.

Investments in Bank Capital and Transactions in Bank Shares

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

On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares. For more information see Note 13.E.-F. to the financial statements.

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions specified between the Bank and the Supervisor of Banks. On August 13, 2014, the Bank Board of Directors approved the aforementioned share buy-back outline. The buy-back plan, including execution thereof, shall be brought for approval by the Board of Directors, should it be put into action.

Buy-back of Bank shares is tantamount to a dividend distribution.

Board of Directors' decision with regard to capital adequacy ratio

On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, requiring them to achieve a minimum Tier I equity 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 Tier I equity ratio of 10% by January 1, 2017.

The directive with regard to a minimum Tier I equity ratio of 10% does not apply to the Bank. The Tier I equity ratio is calculated based on Basel III directives with adjustments specified by the Supervisor of Banks.

On July 23, 2012, the Bank's Board of Directors instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved, on the same date, to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper 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.

For information about amendment of Proper Conduct of Banking Business regulations 201-211 (concerning adoption of Basel III directives with regard to supervisory capital and risk assets) and their impact on capital adequacy at the Bank as of January 1, 2014, see chapter "Legislation and Supervision of Bank Group Operations" below and Note 14 to the financial statements.

Following the publication of these directives, including supervisory adjustments, deductions from capital and instructions on capital measurement and adequacy, the Bank reviewed, on that date, its compliance with the schedule for achieving the target core capital ratio of 9% or higher.

Following this review and based on assumptions, as of the review date, with regard to the expected profit in 2013-2014 and to the 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 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.

On September 28, 2014, the Supervisor of Banks issued an update to Proper Conduct of Banking Business Regulation no. 329 concerning restrictions on extending housing loans, whereby banking corporations are required to increase their Tier I equity ratio by 1% of the outstanding housing loan balance.

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

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different operating segments, an assessment is made of the impact of achieving those objectives on total risk assets for the Bank, and therefore on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy, as stated above.
Bank management believes, in line with the forecasted outline of evolution of the core equity ratio and overall equity ratio as described above, that no capital resources are required in the coming year in order to comply with the minimum equity ratio as required by Proper Conduct of Banking Business Regulation no. 201.
This information constitutes forward-looking information, as defined in the Securities Act, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.
For details of raising funds by means of obligatory notes and debentures, see chapter on Sources and Financing.

Dividend distribution

Dividend distribution policies

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

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

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

On December 23, 2014, 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 equity ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

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

The Bank has received approval by the Supervisor of Banks for the aforementioned outline of its dividend policy.

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

Below are details of dividends distributed by the Bank since 2011 through the publication date of these financial statements (in reported amounts):

Payment date	Dividend per share (Agorot)	Total dividends paid (NIS in millions)
April 17, 2011	53.65	120
September 10, 2013	32.77	75

Profit and Profitability

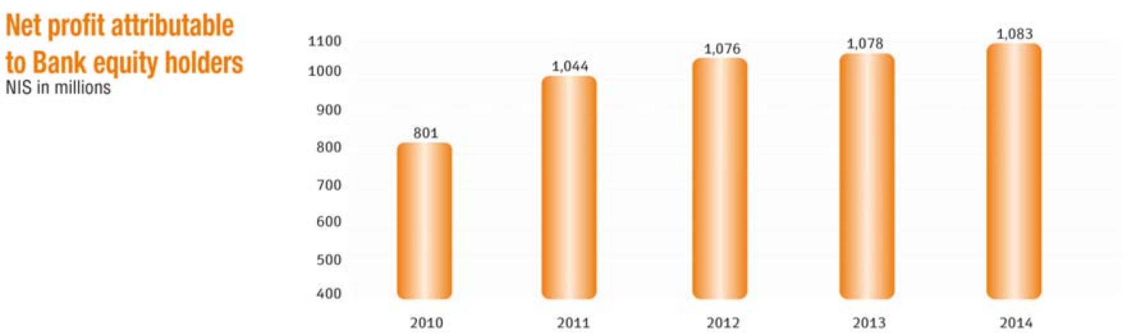
Net profit for the Group in 2014 amounted to NIS 1,083 million, compared to NIS 1,078 million in the previous year. This profit reflects a 10.4% return on equity, compared to 11.5% in the previous year, along with an 11.5% increase in the Bank's capital base (an increase of NIS 1.1 billion).

Group net profit for 2014, and in particular for the fourth quarter, was impacted by the Supervisor of Banks' directives:

The Supervisor's directive with regard to group-based provision with respect to loans to individuals[(1)], with an impact amounting to NIS 54 million.

The Supervisor's directive to accumulate a provision with regard to the USDOJ investigation[(2)]. The provision contained in these financial statements amounts to NIS 95 million and was estimated on the bases of the theoretical assumption, which the Supervisor of Banks instructed, that Bank Mizrahi Switzerland would be included in the "DOJ Swiss Program", although the bank was previously informed that the program does not apply to it, and in accordance with the Bank's current understanding of the meaning of this program.

Group net profit in the fourth quarter of 2014 amounted to NIS 213 million, compared to NIS 252 million in the corresponding period last year – a decrease of 15.5%. This reflects an annualized return on equity at 8.1%, compared to 10.8% in the corresponding period last year.



(1) For more information about the Supervisor of Banks' directive with regard to group-based provision with respect to consumer credit, see Note 1.C.3 to the financial statements.

(2) For more information see Note 19.D.13 to the financial statements.

The following key factors affected Group profit in 2014, compared to 2013:

Financing revenues from current operations (net interest revenues and non-interest financing revenues), net of the increase due to application of FAS 91(1), in 2014, increased by NIS 180 million, or 5.8%, over the corresponding period last year. The increase in current operations was achieved despite further lowering of the Bank of Israel interest rate and the negative inflation environment in 2014, which affect the Bank's margins. See also the analysis of the evolution of financing revenues, below.

- Expenses with respect to credit losses in 2014 decreased by NIS 115 million compared to the corresponding period last year.
- In 2013, includes a non-recurring provision amounting to NIS 191 million, due to application of the Supervisor of Banks' directive with regard to housing loans.
- Commissions and other revenues, net of the decrease due to application of FAS 91(1), increased in 2014 by 3.1% over the corresponding period last year. The increase in commissions and other revenues is presented due to continued growth in business volume and despite the negative effect of various regulatory directives. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.
- Operating and other expenses amounted to NIS 3,032 million in 2014, compared with NIS 2,957 million in 2013, an increase of 2.5%.
- The rate of the provision for taxes on pre-tax profit in 2014 was 37.8%, compared to 34.5% in 2013.

(1) For information about US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues[1] in the fourth quarter of 2014 amounted to NIS 889 million, compared to NIS 807 million in the corresponding period last year - an increase of 10.2%.

Net interest revenues and non-interest financing revenues [1] from current operations in the fourth quarter of 2014 amounted to NIS 844 million, as described below, compared to NIS 805 million in the corresponding period last year, an increase of 4.8%.

Current operations in the fourth quarter of 2014 were impacted by the Bank of Israel interest rate, which at the end of 2014 reached 0.25%, compared to 1.00% at the end of 2013.

Net interest revenues and non-interest financing revenues[1] in 2014 amounted to NIS 3,548 million, compared to NIS 3,478 million in the corresponding period last year, an increase of 2.0%.

Net interest revenues and non-interest financing revenues[1] from current operations in 2014 amounted to NIS 3,309 million, as described below, compared to NIS 3,129 million in the corresponding period last year, an increase of 5.8%.

Current operations in 2014 were impacted by the lower Bank of Israel interest rate, as noted above, and by the "known" CPI which decreased by 0.1% in 2014, compared to an increase by 1.9% in 2013.

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

	For the year ended December 31,			For the quarter ended December 31,		
	2014	2013	Change in %	2014	2013	Change in %
Interest revenues, net	3,375	3,464		846	784	
Non-interest financing revenues[1]	173	14		43	23	
Total financing revenues	3,548	3,478	2.0	889	807	10.2
Less:						
Effect of application of FAS 91 [2]	153	-		43	-	
Linkage differentials with respect to CPI position	(11)	147		(22)	(3)	
Revenues from collection of interest on troubled debt	77	74		21	18	
Gain on sale of debentures and shares available for sale and gain from debentures held for trading, net	125	87		19	19	
Effect of accounting treatment of derivatives at fair value and others[3]	(105)	41		(16)	(32)	
Total financing revenues from current operations	3,309	3,129	5.8	844	805	4.8

(1) Non-interest financing revenues include the 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) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

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

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

	For the year ended December 31,			
Operating segment	2014	2013	Change amount	Change in %
Retail banking:				
Mortgages	756	675	81	12.0
Households[(1)]	1,143	1,196	(53)	(4.4)
Small business	517	466	51	10.9
Total	2,416	2,337	79	3.4
Private banking[(1)]	64	64	-	-
Commercial banking	162	167	(5)	(3.0)
Business banking	769	750	19	2.5
Financial management	137	160	(23)	(14.4)
Total	3,548	3,478	70	2.0

(1) The household and private banking segments were impacted by margin erosion due to lower interest rates.

For definition of operating segments, see below in chapter "Description of Businesses of the Bank Group by Operating Segment".

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

Linkage segment - financial assets	2014	2013	Change in %
Israeli currency - non-linked	105,258	89,813	17.2
Israeli currency - linked to the CPI	53,845	51,568	4.4
Foreign currency	13,660	13,889	(1.6)
Total	172,763	155,270	11.3

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

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

	For the year ended December 31,		For the quarter ended December 31,	
Linkage segment	2014	2013	2014	2013
Israeli currency - non-linked	2.33	2.13	2.53	2.34
Israeli currency - linked to the CPI	0.16	0.27	0.29	0.45
Foreign currency (including Israeli currency linked to foreign currency)	1.49	1.97	1.34	1.74
Total	1.67	1.80	1.77	1.81

(1) Average balances before expenses with respect to credit losses.

The interest spread in the non-linked NIS segment was positively impacted by application of FAS 91[1], primarily with regard to early repayment commissions. See Note 1.C.1 to the financial statements for further information.

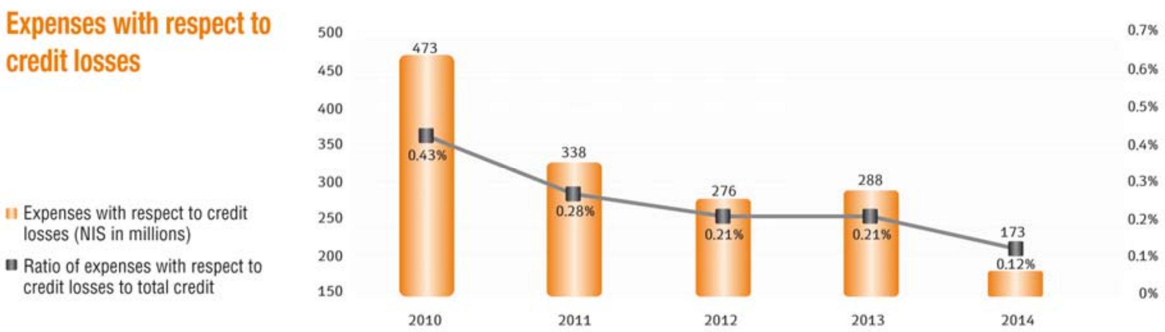
The lower interest rate spread in the non-linked and CPI-linked NIS segment and in the foreign currency segment is due to erosion of interest spreads due to the low interest rate environment.

The decrease in overall interest spread is due, *inter alia*, to the lower CPI in the current period, compared to an increase in the CPI in the corresponding period last year. See also analysis of evolution of financing revenues from current operations above.

See Management Discussion - Addendum C 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 in 2014 amounted to NIS 173 million, or 0.12% of total loans to the public, net compared to NIS 288 million in 2013 (or 0.21% of total loans to the public, net), for a total decrease of NIS 115 million.

Expenses with respect to credit losses amounted to NIS 150 million in the fourth quarter of 2014, or an annualized rate of 0.41% of total loans to the public, net, compared with NIS 5 million, or an annualized rate of 0.01% of total loans to the public, net in the corresponding period last year - for a total increase of NIS 145 million.



(1) For more information about the Supervisor of Banks' directives with regard to the group-based provision with respect to consumer credit, see Note 1.C.3 to the financial statements.

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

	For the year ended December 31,		For the quarter ended December 31,	
	2014	2013	2014	2013
Provision for credit losses on individual basis (including accounting write-offs)	109	98	132	24
Provision for credit losses on Group basis:				
By extent of arrears	(20)	(31)	(10)	(38)
Other	84	221	28	19
Total expenses with respect to credit losses	173	288	150	5
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	0.12%	0.21%	0.41%	0.01%
Of which: With respect to commercial loans other than housing loans	0.33%	0.20%	1.23%	0.23%
Of which: With respect to housing loans	0.01%	0.21%	(0.02%)	-

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

	For the year ended December 31,	
Operating segment	2014	2014
Retail banking:		
Mortgages	6	190
Households	88	49
Small business	98	72
Total	192	311
Private banking	3	-
Commercial banking	(10)	(5)
Business banking	(3)	(17)
Financial management	(9)	(1)
Total	173	288

Net interest revenues after expenses with respect to credit losses in 2014 amounted to NIS 3,202 million, compared to NIS 3,176 million in 2013 - an increase of 0.8%.

Net interest revenues after expenses with respect to credit losses in the fourth quarter of 2014 amounted to NIS 696 million, compared to NIS 779 million in the corresponding period last year - a decrease of 10.7% (as noted above, excluding the effect of credit losses and including non-interest financing revenues - an increase of 10.2%). See above for the analysis of evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest revenues for the Group amounted to NIS 1,612 million in 2014, compared with NIS 1,499 million in 2013, an increase of 7.5%.

Non-interest revenues for the Group amounted to NIS 426 million in the fourth quarter of 2014, compared with NIS 403 million in the corresponding period last year - a year-over-year increase of 5.7%. See remarks below.

Non-interest financing revenues for the Group amounted to NIS 173 million in 2014, compared with NIS 14 million in 2013, an increase of NIS 159 million.

Non-interest financing revenues in the fourth quarter of 2014 amounted to NIS 43 million, compared to NIS 23 million in the corresponding period last year, an increase of NIS 20 million. 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 net of the decrease due to application of FAS 91(1) in 2014 amounted to NIS 1,487 million, compared to NIS 1,458 million in 2013, an increase of 2.0%.

Commission revenues net of the decrease due to application of FAS 91(1) in the fourth quarter of 2014 amounted to NIS 389 million, compared to NIS 374 million in the corresponding period last year, an increase of 4.0%.

The Bank's business continues to grow, so that the volume increase exceeds the regulatory impact on commission items. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Commissions in 2014, as stated on these financial statements, after the effect of application of FAS 91(1), amounted to NIS 1,395 million. Commissions in the fourth quarter of 2014, as stated on these financial statements, after the effect of application of FAS 91(1), amounted to NIS 364 million.

Other revenues for the Group amounted to NIS 44 million in 2014, compared with NIS 27 million in 2013, an increase of NIS 17 million.

Other revenues for the Group in the fourth quarter of 2014 amounted to NIS 19 million, compared to NIS 6 million in the corresponding period last year, an increase of NIS 13 million. This increase is due to higher revenues from trustee operations and to capital gains, which reflect the results of Bank operations in conjunction with restructuring and streamlining the Bank's branch network.

Operating and other expenses for the Group amounted to NIS 3,032 million in 2014, compared with NIS 2,957 million in 2013, a year-over-year increase of 2.5%.

Operating and other expenses amounted to NIS 766 million in the fourth quarter of 2014, compared with NIS 779 million in the corresponding period last year - a decrease of 1.7%. See remarks below.

Payroll and associated expenses for the Group amounted to NIS 1,869 million in 2014, compared with NIS 1,836 million in 2013, an increase of 1.8%.

Payroll and associated expenses in the fourth quarter of 2014 amounted to NIS 453 million, compared to NIS 491 million in the corresponding period last year, a decrease of NIS 38 million.

In 2013, the Group recorded non-recurring provisions, mostly in the fourth quarter of 2013.

(1) For more information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Maintenance and depreciation expenses for buildings and equipment for the Group in 2014 amounted to NIS 705 million, compared to NIS 683 million in 2013, a year-over-year increase of 3.2%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 176 million in the fourth quarter of 2014, compared with NIS 173 million in the corresponding period last year – a year-over-year increase of 1.7%.

Other expenses for the Group in 2014 amounted to NIS 458 million, compared with NIS 438 million in 2013, an increase of 4.6%.

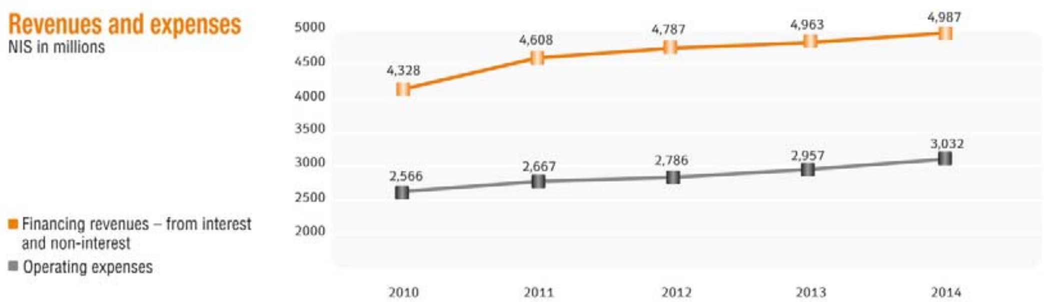
Other expenses for the Group amounted to NIS 137 million in the fourth quarter of 2014, compared with NIS 115 million in the corresponding period last year - an increase of NIS 22 million - which is attributed, *inter alia*, to increase in marketing and advertising expenses.

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

	For the year ended December 31,	
	2014	2013
Cost-Income Ratio(1)	60.8	59.6

	2014				2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	60.2	61.0	59.0	63.2	65.6	59.0	54.8	59.4

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



Group profit before taxes amounted to NIS 1,782 million in 2014, compared with NIS 1,718 million in 2013, an increase of 3.7%.

Pre-tax profit for the Group amounted to NIS 356 million in the fourth quarter of 2014, compared with NIS 403 million in the corresponding period last year - a decrease of NIS 47 million.

Provision for taxes for the Group amounted to NIS 673 million in 2014, compared with NIS 592 million in 2013, an increase of 13.7%.

The provision for taxes amounted to NIS 139 million in the fourth quarter of 2014, compared with NIS 140 million in the corresponding period last year - a decrease of NIS 1 million.

The provision for taxes in 2013 included a reduction in tax expenses amounting to NIS 28 million with respect to deferred taxes, due to the 1.5% increase in the corporate tax rate as from January 1, 2014.

The rate of provision for taxes on pre-tax profit in 2014 was 37.8%, compared to 34.5% in 2013.

The rate of provision for taxes on pre-tax profit in the fourth quarter of 2014 was 39.0% - compared to 34.7% in the corresponding period last year.

The Bank's share of after-tax profit of associates in 2014 amounted to NIS 5 million, compared to a loss amounting to NIS 4 million in 2013. This is due to realized real investments in 2014, compared to recognized impairment of investments in 2013.

The Bank's share of losses of subsidiaries in the fourth quarter of 2014 amounted to a loss of NIS 1 million, compared to a loss of NIS 4 million in the corresponding period last year.

The share of non-controlling interest in net results of subsidiaries in 2014 amounted to NIS 31 million, compared to NIS 44 million in 2013. The decrease is primarily due to application of the Supervisor of Banks' directive concerning group-based provision with respect to consumer credit[(1)] at Bank Yahav.

(1) For more information about the Supervisor of Banks' directives with regard to the group-based provision with respect to consumer credit, see Note 1.C.3 to the financial statements.

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

	For the year ended December 31,		
	2014	2013	2012
Net return on equity	10.4	11.5	13.1
Ratio of Tier I capital to risk elements at year end	(3)(4)9.12	9.01	8.55

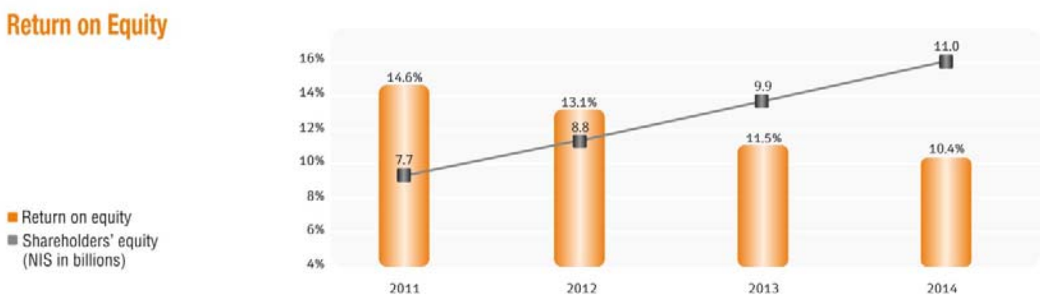
	2014				2013			
In %	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	8.1	12.0	12.3	11.0	10.8	13.3	11.1	13.1
Ratio of Tier I capital to risk elements at end of quarter	(3)(4)9.12	(3)9.01	(3)9.00	(3)8.87	9.01	8.84	8.74	8.71

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in the 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) Includes the effect of application of Basel III directives (a decrease of 0.28% on January 1, 2014).

(4) For details of adoption of US GAAP for employee rights and of 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 14 to the financial statements and the chapter "Legislation and Supervision of Bank Group Operations", respectively.



Earnings per share

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

	2014	2013	2012
Basic earnings per share	4.70	4.72	4.77
Diluted earnings per share	4.68	4.69	4.74

Development of balance sheet items

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

	December 31,		
	2014	2013	Change in %
Balance sheet total	198,564	179,613	10.6
Loans to the public, net	147,569	138,565	6.5
Deposits from the public	152,379	141,244	7.9
Securities	14,259	7,000	103.7
Shareholder equity	10,987	9,852	11.5

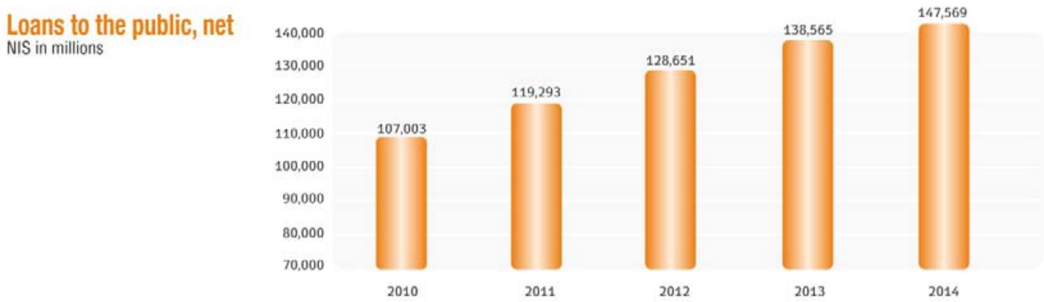
Loans to the public, net - loans to the public, net on the consolidated balance sheet as of December 31, 2014 accounted for 74% of total assets, compared to 77% at the end of 2013. Loans to the public, net for the Group increased in 2014 by NIS 9.0 billion, an increase of 6.5%.

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

	Balance as of December 31		Change in %	Percentage of total loans to the public as of December 31	
	2014	2013		2014	2013
Israeli currency					
Non-linked	82,823	73,715	12.4	56.0	53.2
CPI- linked	52,876	52,740	0.3	36.0	38.1
Foreign currency and foreign currency linked	11,870	12,110	(2)	8.0	8.7
Total	147,569	138,565	6.5	100.0	100.0

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

Operating segment	2014	2013	Change in %
Retail banking:			
Mortgages	91,581	84,246	8.7
Households	20,462	19,022	7.6
Small business	9,018	7,667	17.6
Total retail	121,061	110,935	9.1
Private banking	1,051	956	9.9
Commercial banking	4,240	4,517	(6.1)
Business banking	21,217	22,157	(4.2)
Total – business and others	26,508	27,630	(4.1)
Total	147,569	138,565	6.5



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 loss:

Reported amounts	As of December 31, 2014			As of December 31, 2013		
(NIS in millions)	Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Troubled credit risk						
Impaired credit risk	781	172	953	1,241	233	1,474
Inferior credit risk	110	-	110	152	-	152
Credit risk under special supervision (2)	1,162	50	1,212	1,385	103	1,488
Total troubled credit risk	2,053	222	2,275	2,778	336	3,114
Of which: Non-impaired debt in arrears 90 days or longer(2)	1,001			1,134		
2. Non-performing assets(3)	726			1,136		

(1) On- and off-balance sheet credit is stated before impact of the provision for credit losses, and before impact of deductible collateral with respect to indebtedness of a borrower and of a 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 950 million (as of December 31, 2013 - NIS 1,081 million).

(3) Non-accruing assets.

For more details of troubled credit risk, see Note 4 to the financial statements.

Below are key risk benchmarks with respect to loans to the public:

	December 31, 2014	December 31, 2013
Ratio of impaired loans to the public to total loans to the public	0.5	0.9
Ratio of impaired loans to the public to total non-housing loans	1.5	2.5
Ratio of troubled loans to the public to total non-housing loans	2.1	3.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public(1)(2)	0.6	0.8
Ratio of provision for credit losses to total loans to the public	1.0	1.0
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7
Ratio of troubled credit risk to total credit risk with respect to the public	1.1	1.6
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.12	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.11	0.42

(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 December 31, 2014 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	111	711	822
2.	Construction and real estate	59	716	775
3.	Power and water	628	107	735
4.	Construction and real estate	483	161	644
5.	Construction and real estate	1	603	604
6.	Construction and real estate	153	446	599

On- and off-balance sheet credit risk is stated before impact of the provision for credit losses, and before impact of deductible collateral with respect to indebtedness of a borrower and of a borrower group.

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

		2014		2013
Credit risk for borrower (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	11.4	73.6	12.0	75.1
150-600	23.3	17.7	23.1	17.2
600-2,000	30.6	8.0	28.6	7.1
Above 2,000	34.7	0.7	36.3	0.6

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

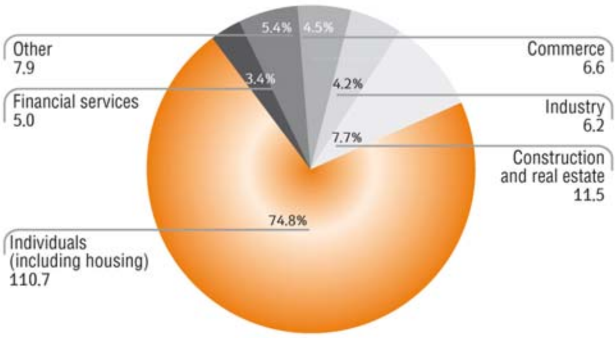
		2014			2013
Sector	Balance sheet credit risk	Percentage of total balance-sheet credit risk	Balance sheet credit risk	Percentage of total balance-sheet credit risk	Change in %
Private individuals (includes mortgages)	110,726	74.8	101,706	74.2	8.9
Construction and real estate	11,455	7.7	11,050	8.0	3.7
Financial services	4,985	3.4	3,935	2.9	26.7
Industry	6,169	4.2	5,944	4.3	3.8
Commerce	6,591	4.5	6,655	4.9	(1.0)
Other	7,945	5.4	7,819	5.7	1.6
Total	147,871	100.0	137,109	100.0	

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

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel instructions. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities.

Balance sheet credit risk in Israel by economic sector – as of December 31, 2014

NIS in billions



Total credit risk for the Bank Group as of December 31, 2014 amounted to NIS 207 billion, compared to NIS 191 billion in 2013 - an increase of 8.4%.

Securities - investment in securities increased in 2014 by NIS 7.3 billion. The increase in total investment in securities is within asset and liability management.

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

	Balance as of December 31		
Linkage segment	2014	2013	Change (in %)
Israeli currency			
Non-linked	10,192	4,015	-
CPI- linked	699	138	-
Foreign currency and foreign currency linked	3,264	2,749	18.7
Non-monetary items	104	98	6.1
Total	14,259	7,000	103.7

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	
	December 31, 2014	December 31, 2013
Government debentures:		
Government of Israel	13,631	6,340
US Government	115	61
Other	-	21
Total government debentures	13,746	6,422
Debentures of banks in developed nations:		
UK	97	96
Israel	123	124
Germany	117	103
Other	5	5
	342	328
Debentures of (non-banking) financial institutions in developed nations: (1)		
USA	-	10
Luxembourg	-	10
	-	20
Total debentures of banks and financial institutions in developed nations	342	348
Corporate debentures (composition by sector):		
Industry	10	65
Construction	16	24
Power and water	1	17
Public and community services	11	-
Financial services	29	26
Total corporate debentures	67	132
Shares	104	98
Total securities	14,259	7,000

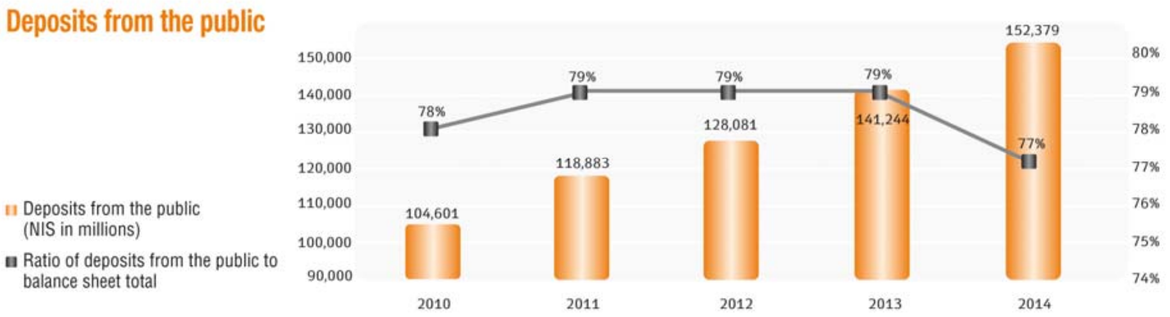
(1) Exposure primarily consists of exposure to banks, investments and holding companies in bank groups.

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 3 to the financial statements.

Deposits from the public - these account for 77% of total consolidated balance sheet as of December 31, 2014, compared with 79% at the end of 2013. In 2014, deposits from the public for the Bank Group increased by NIS 11.1 billion, an increase of 7.9%.

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

	Balance as of December 31		Change rate (In %)	Share of total deposits from the public as of December 31 (in percent)	
Linkage segment	2014	2013		2014	2013
Israeli currency					
Non-linked	98,541	92,888	6.1	64.7	65.8
CPI- linked	19,040	21,439	(11.2)	12.5	15.2
Foreign currency and foreign currency linked	34,798	26,917	29.3	22.8	19.0
Total	152,379	141,244	7.9	100.0	100.0



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

Operating segment	2014	2013	Change in %
Retail banking:			
Households	65,701	60,793	8.1
Small business	11,068	9,517	16.3
Total retail	76,769	70,310	9.2
Private banking	9,090	7,027	29.4
Commercial banking	4,546	3,408	33.4
Business banking	47,117	43,467	8.4
Financial management	14,857	17,032	(12.8)
Total	152,379	141,244	7.9

For more information about components of deposits from the public, see Note 9 to the financial statements.

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

	December 31,	
	2014	2013
Maximum deposit		
Up to 1	50,887	48,678
1 to 10	31,119	25,226
10 to 100	15,522	14,810
100 to 500	15,511	13,507
Above 500	39,340	39,023
Total	152,379	141,244

For further details on deposits from the public and deposits from banks, see Notes 9 and 10 to the financial statements.

The ratio of shareholders' equity to balance sheet total for the Group as of December 31, 2014 was 5.53%, compared to 5.49% as of the end of 2013.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, as from January 1, 2015 the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk elements of its balance sheet assets and off-balance-sheet items. Those instructions describe the manner of calculation of total capital and total risk elements.

As from January 1, 2015, a capital requirement would be added to these ratios, reflecting 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 1, 2017, on a consolidated basis, in conformity with data as of the reporting date, are 9.8% and 13.3%, respectively.

Starting on December 31, 2009, the ratio of capital to risk elements was calculated in accordance with Basel II rules.

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 from January 1, 2014, subject to transitional provisions.

For details of the revised directives, a 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 14 to the financial statements.

Below is the development of the capital to risk elements ratio for the Group (in %):

	December 31, 2014	January 1, 2014	December 31, 2013
	Basel III	Basel III	Basel II
Ratio of Tier I capital to risk elements	9.12	8.73	[(1)]-
Ratio of Tier I capital to risk elements	9.12	8.73	9.01
Ratio of total capital to risk elements	13.03	12.88	13.04
Minimum Tier I (core) capital adequacy ratio required by directives of the Supervisor of Banks	[(2)]9.00	[(2)]9.00	7.50
Total minimum capital ratio required by the directives of the Supervisor of Banks	[(2)]12.50	[(2)]12.50	9.00

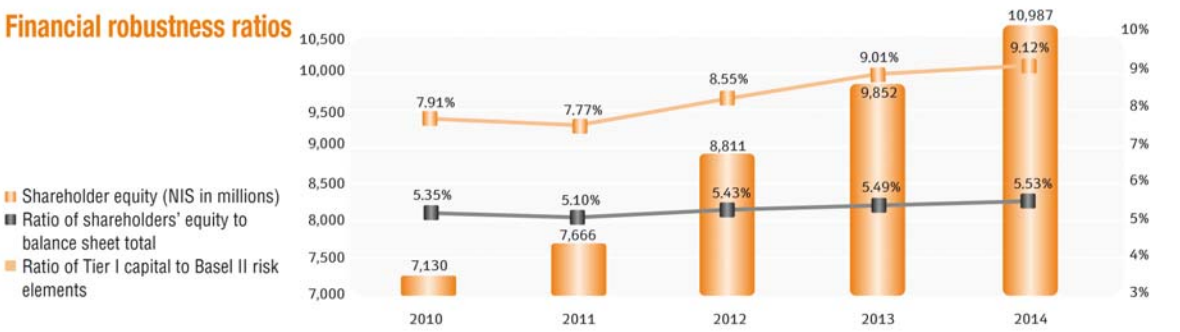
(1) The requirement as to Minimum Tier I capital adequacy ratio applies as from January 1, 2014.

(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015.

To these ratios, as from January 1, 2015, an additional capital requirement would be added 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 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 required minimum Tier I capital ratio for the first quarter of 2015 is 9.0%.

The minimum Tier I capital ratio required as of April 1, 2015 is expected to be 9.1%, calculated based on data known as of the date of these financial statements.



Off Balance Sheet Activity

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

	December 31, 2014	December 31, 2013	Change in % over December 31, 2013
Off balance sheet financial instruments other than derivatives [(1)]:			
Documentary credit	345	296	16.6
Loan guarantees	2,173	2,413	(9.9)
Guarantees to home buyers	10,450	9,935	5.2
Guarantees and other liabilities	4,007	3,519	13.9
Unutilized revolving credit card facilities	7,478	7,135	4.8
Unutilized debitory account and other credit facilities in accounts available on demand	19,773	17,460	13.2
Irrevocable commitments for loans approved but not yet granted	11,807	9,009	31.1
Commitments to issue guarantees	7,040	6,265	12.4
Financial derivatives[(2)]:			
Total par value of financial derivatives	271,477	202,950	33.8

(1) Contract balances or their stated amounts at the end of the period, before the effect of provision for credit losses. For more information see Note 19.A. to the financial statements.

(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):

	December 31, 2014	December 31, 2013	Change in % over December 31, 2013
Client activities involving securities[(1)]	210,645	178,222	18.2
Assets of provident funds for which the Group provides operating services[(2)]	71,649	64,297	11.4
Assets of mutual funds for which the Bank provides operating services[(3)]	21,241	18,409	15.4
Assets of mutual funds for which the Group provides trustee services[(3)]	77,849	57,199	36.1
Activity by extent of collection[(4)]	11,701	11,454	2.2

(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 presented balance of client activities includes, in addition to securities of mutual funds, as noted above, also the value of participation units in these funds, held by Bank clients.

(2) For information about the effect of provident fund market reform on the Bank's provident fund operations, see below.

(3) Includes:

- 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 a commission.
- Other loans managed by the Bank.

Provident fund operations

Following the reform in the provident fund market in recent years, and upon termination of the relief period allowed by Financial Services Supervision Regulations (Provident Funds) (Permission to manage multiple provident funds), 2012 - as from January 1, 2014, a company which manage provident funds must elect a single operating entity for each type of provident funds which they manage.

Given the foregoing, in the first quarter of 2014, two companies which had the Bank operate some of their provident funds, decided to transfer all of their provident fund assets under management to be operated by the Bank, in addition to another company which did so in 2013. The funds were transferred from one company on January 1, 2014 and from the other - on April 1, 2014; in conformity with the agreement, another part was transferred on July 1, 2014. Conversely, on October 1, 2014, another company transferred its assets to be operated by another entity.

Concurrently with changes in total assets of provident funds operated by the Bank, as from January 2014, Bank Yahav discontinued its provident fund and study fund operations.

After discontinuation of fund operations by Bank Yahav, as noted above, the Bank as of December 31, 2014 operated provident funds amounting to NIS 72 billion, compared to NIS 46 billion at the end of 2013 (NIS 64 billion on a consolidated basis, including Bank Yahav).

Major Investees

The contribution of investees to net operating profit in 2014 amounted to NIS 144 million, compared with NIS 118 million last year. These data include impact of changes in exchange rates on the balance of the investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the aforementioned effect of exchange rates, the contribution of investees amounted to NIS 130 million, compared to NIS 134 million in the corresponding period last year - see explanation under Investees below.

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

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

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

In 2014, the Comptroller General issued a tender for provision of banking services to State employees. No banks bid on this tender. Consequently, another tender was issued concerning budgeted loans to State employees. On February 26, 2015, the Comptroller General announced that Bank Yahav was awarded this tender, with an effective start date of July 1, 2015.

Bank Yahav's contribution to Group net profit in 2014 amounted to NIS 31 million, compared with NIS 44 million in 2013. The lower net profit is mostly due to higher expenses with respect to credit losses, due to application of the Supervisor of Banks' directives concerning the group-based provision for credit extended to individuals. Net profit return on equity for Bank Yahav (average equity, as defined in the Supervisor of Banks' Public Reporting Regulations) amounted in 2014 to 5.9%, compared to 9.5% in 2013. Bank Yahav's balance sheet total as of December 31, 2014 amounted to NIS 20,806 million, compared to NIS 19,327 million as of December 31, 2013, an increase of 7.7%. The balance of loans to the public as of December 31, 2014 amounted to NIS 7,299 million, compared to NIS 6,657 million at end of 2013, an increase of 9.6%.

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

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

Tefahot Insurance's contribution to Group net profit in 2014 amounted to NIS 72 million, compared with NIS 78 million in 2013.

Net return on equity amounted to 10.0% in 2014, compared to 11.6% in 2013.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed NIS 16 million to the Bank's profit in 2014, net, compared with net profit of NIS 15 million in 2013.

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. ("Mizrahi International Holdings"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in 2014 amounted to CHF 1.1 million, compared to CHF 0.2 million in 2013. Mizrahi Bank Switzerland's balance sheet total as of December 31, 2014 amounted to CHF 221 million, compared to CHF 180 million at the end of 2013.

The balance of loans to the public as of December 31, 2014 amounted to CHF 76 million, compared to CHF 77 million at end of 2013. The balance of securities as of December 31, 2014 amounted to CHF 3 million, compared to CHF 8 million at end of 2013. The deposits with banks as of December 31, 2014 increased to CHF 142 million, compared to CHF 92 million at end of 2013. Deposits from the public as of December 31, 2014 amounted to CHF 156 million, compared to CHF 121 million at end of 2013. Deposits from banks as of December 31, 2014 amounted to CHF 5 million, compared to CHF 0.2 million at end of 2013.

These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings, which owns United Mizrahi Bank Switzerland, to Group net profit in 2014, amounted to a profit of NIS 17 million, compared with a loss of NIS 15 million in 2013. These data include the impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to Group net profit in 2014 amounted to a profit of NIS 4 million, compared to NIS 1 million in 2013. This increase is due to higher net profit at Mizrahi Bank Switzerland, as noted above.

For more information about a DOJ inquiry in the USA concerning Bank Group business with US clients, see Note 19.D.13 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, when the Bank has a material investment in such entity. About 2% of these investments are negotiable and presented at their market value. The remainder of these investments is 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 December 31, 2014 amounted to NIS 123 million, compared to NIS 125 million at end of 2013, as detailed below.

Under the available-for-sale securities portfolio:

- NIS 2 million (NIS 0.2 million as of the end of 2013) is with respect to negotiable investments.
- NIS 61 million (NIS 57 million as of end of 2013) is with respect to participation units in various equity fund .
- Investments in several different other corporations, which are stated at cost, the balance of the investment in which amounted to NIS 8 million as of December 31, 2014 (similar to the end of 2013).

Under investment in associates:

- NIS 31 million (NIS 39 million as of end of 2013) constituting the balance of the Bank's investment in mezzanine funds. A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.
- NIS 19 million (same as of end of 2013) is the balance of the Bank's investment in Psagot Jerusalem Ltd., a private company which acquired land in the Jerusalem area for residential development. The carrying amount of Bank investments as of December 31, 2014 amounted to NIS 35 million throuth investment in capital hotes, (same as of end of 2013).
- NIS 2 million (identical amount as of end of 2013) is the balance of the Bank's investment in Rosario Capital Ltd., a private company engaged in underwriting, assistance and consulting on private and public issuance, mergers & acquisitions, investment in securities and distribution of securities.

The Bank's net gain from investments in non-banking corporations, after provision for impairment, in 2014 amounted to NIS 16 million, compared with a loss amounting to NIS 3 million in 2013.

Branch format and direct channels

Branch deployment

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

Group branches are located nationwide, consisting of 176 business centers, branches and affiliates, including 45 Bank Yahav branches - as of December 31, 2014.

The Bank continues to expand its branch network in accordance with its strategic plan, with location selection based on considerations such as providing optimal service to clients, economic viability considerations etc.

In 2014, the Bank opened 4 new points of sale and consolidated several others with major branches located nearby, following the mapping of bank client needs and in order to improve service to clients. In 2015, the Bank is expected to open 5 more points of sale.

The Bank operates a unique service – the LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, internet, email, SMS, video conferencing). Through December 31, 2014, the Bank opened 6 LIVE branches.

As part of the strategy designed to increase Bank market share in the Arab sector, the Bank opened a new branch in the Arab sector in the first quarter of 2015 and a second branch is scheduled to be opened in the second quarter of this year. The Bank is reviewing other expansion options.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic development in Israel and internationally, especially the state of the economy, including macro-economic and geo-political conditions, economic policies, currency markets and capital markets, clients' financial robustness, public preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological development, developments in availability, purchase and rental prices of properties and staffing issues.

Direct channels

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

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

Direct channels offered to Bank clients include:

Hybrid Banking services

Hybrid Banking is about integrating personal service accessible to clients with technology - telephone, email and SMS. Hybrid Banking services are provided by Bank branches and banking centers, as follows:

- Bank branches – phone calls, emails and SMS messages from identified clients are directly routed to that client's banker and are answered by the banker or by the backup staff at the branch.
- Banking center – the branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. This service is provided between 7am and midnight.

  As from November 2014, banking center service is provided 24 hours a day (other than Saturdays and holidays).

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

  In 2015, the Hybrid Banking service would be extended to business clients at the banking center.
- Mortgage center – this center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on housing loans, receiving payments for existing loans and making arrangements and payments for loans in arrears.

  The Hybrid Banking service for mortgages is offered by half of the Bank's branches and by the end of the first quarter of 2015 would be gradually extended to all branches.

  In 2015, the interface with branches would be extended in order to expand mortgage origination, Tefahot credit card marketing and more intensive collection operations.
- Sales center - intended to enhance selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of sales calls. In addition, the sales center handles sales of Mizrahi Tefahot credit cards, refinancing mortgages from other banks for Bank clients, sale of car loans and preventing churn.

  In 2015, the Bank will intensify the mortgage refinancing operations for commercial clients, activities designed to prevent churn, reactivation of open but inactive accounts and will improve performance across its operations by better interfacing with Bank branches.
- Investment center – this center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to

branches. The center also recruits new clients for savings, focusing on maximizing performance of savings campaigns (Pomegranate, Cherry, Lychee etc.) The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign securities.

In 2015, the Bank expects to increase the number of recruited clients and to increase its savings business for the foreign currency affiliate and the foreign securities affiliate.

This information constitutes forward-looking information, as defined in the Securities Act, 1968. This information is based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank Board of Directors. These assumptions may fail to materialize due to factors not entirely within the Bank's control.

Online, cell phone, notification box, IVR and fax services

- Online service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.

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

  In 2015, the Bank is expected to launch a new website for the mortgage segment and to expand this service to business clients and to international operations.
- Cell phone application – allows clients to obtain banking information and conduct transactions by means of cellular browsing using smartphones.

  In 2014, the range of services offered to Bank clients by this application has been extended to include trading on the capital market through a smartphone.
- Notification Box service – receiving Bank notifications of account activity in a personal notification box via the Bank's website.
- Cell phone service – disseminating banking and financial information through cell phones. In 2014, the Bank expanded the range of information messages sent to clients to include information messages customized for business clients.
- IVR service – this service is provided to clients identified by a personal pass-code, providing them with computer-based information for common queries and transactions such as ordering a checkbook free of charge and receiving information by fax at a reduced cost. This service is available 24 hours a day.
- PC service – a system parallel to "Mizrahi online", enabling direct connection to the Bank's computer, not through the Internet, and consequently – faster execution of transactions.
- Fax service – makes it possible to receive current banking information about the client account on a range of subjects, at the frequency specified by the customer.

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Self-service at branches

- Service stations - Mizrahi-Tefahot provides clients with service stations which allow them to conduct transactions and obtain information about accounts in the commercial sector and in the mortgage sector - using self-service, 24 hours a day - even when the branch is closed. Some of the service stations also offer immediate checkbook printing. In 2015, the Bank is expected to complete the replacement of service stations with new ones, offering a new user interface and check deposit service.
- ATMs – the Bank has 164 cash-withdrawal machines (116 at Bank branches and 48 remote); 14 ATMs include optional foreign currency withdrawal; 20 ATMs have an optional check deposit feature.

  In 2015, the Bank is expected to expand its remote ATM network at locations with potential for service improvement and increased revenues.

Fixed assets and installations

Information on the Bank's fixed assets is presented in Note 7 "Buildings and equipment" to the financial statements. See the section on IT systems and computers below for additional details.

Real estate

The total area of real estate owned or leased by the Bank Group for its use, as of December 31, 2014, is 127 thousand m^2, as provided in the table below:

Type of property(1)	Gross area, thousand m^2, as of December 31, 2014		
	Owned	Leased	Total area
Branches	34.8	32.7	67.5
Offices and storage	38.6	7.3	45.9
Unused property with potential future use(2)	12.0	0.5	12.5
Properties not in use and designated for sale or to be vacated(3)	1.1	-	1.1
Total	86.5	40.5	127.0

(1) The Bank owns a total area of 17.2 thousand m^2 used as covered parking space, which is not included in the table above.
(2) Of the assets not in use and serving for potential future use, 9 thousand m^2 is undergoing refurbishment and adaptation for Bank needs (including 7.5 thousand m^2 in a building in Lod) and the remainder is leased to other parties.
(3) All properties not in use and designated to be sold or vacated are in advanced selling stages and should be delivered in 2015.

It is Bank policy to only hold real estate actually needed or expected to be needed in the future. The Bank regularly reviews the extent, attributes and location of required areas, based on its business plan and nation-wide branch deployment plan, and makes the required adjustments.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2014 amounts to NIS 944 million, compared to NIS 926 million at the end of 2013.

Intangible assets

The Bank Group has data base entries of clients and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot - No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun, "Market Leader in Mortgages Tefahot", "Israel No.1 Du Credit Hypothecaire En Tefahot" and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

IT and computers

IT services for Bank Mizrahi-Tefahot are provided by a wholly-owned subsidiary of the Bank - Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division"). The Technology Division works to develop sophisticated IT systems and to continuously improve the level of the Bank's technology equipment.

The main site serving the Bank Group IT systems includes mainframe computers, servers, data storage systems, communications equipment, printers and terminal equipment, all serving as development and operational infrastructure of the Technology Division (see below under section - "Infrastructure and operation").

The Disaster Recovery Site (DRP), located separately, includes a mainframe computer, servers, storage, communications and terminal equipment (see section "Backup and Disaster Recovery" below).

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

Computer services for Bank Yahav

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

As of the signing date of the financial statements, Bank Yahav receives computer and operating services from Bank HaPoalim. These services are provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor. After extensive review of options for disconnection from Bank HaPoalim's systems, in which the Bank reviewed local and international proposals, in February 2014, the Bank Yahav Board of Directors approved contracting with an international company for creating a core banking system and receiving outsourced services for such system. The selected company offers an advanced solution for core banking services (BANCS), including outsourcing services for many banks and financial institutions around the world. On April 7, 2014, Bank Yahav contracted with this company and the project is on-going.

As part of this project, Bank Mizrahi-Tefahot would be sub-contractor for several issues, as agreed and to be covered by a separate legal agreement.

This project also specifically emphasizes management of project risk, in order to identify the various risk factors in different project stages and to monitor the mitigation of such risk.

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

Infrastructure and operations

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

Backup and disaster recovery

The Bank's disaster recovery policies are based on operating the main systems at a backup site within no more than 8 hours. To this end, a disaster recovery plan (DRP) was established, based on an agreement with an international company to obtain backup facility services at its site, combined with equipment owned by the Bank installed at the backup site. The solution includes a mainframe computer, data storage means, servers and 150 work stations. Data at the DRP site is updated in real time by the "hot backup" method. There are open systems, defined by the Bank as having a low criticality level, which are not included in the backup site. Data for these systems is fully backed up. In case of emergency, the required equipment would be installed and the software would be loaded from the central disk facility. In 2015, site expansion will continue and systems will be added, according to priorities to be set by the Bank.
In order to ensure reliability of the DRP system and the disaster recovery capability, exercises are conducted together with the different divisions, in order to test the systems.

Concurrently with update of the information at the backup site, critical information for core systems on the central computer are updated at a third site, located in Jerusalem - in order to provide information survivability in case of an extreme scenario where both the main site and the backup site are impacted simultaneously.
In addition to the backup system, other means provide physical equipment and infrastructure security, in both the main site and the backup site: identification of leaks, identification of flooding, preventing electrical surges, etc.
In conjunction with the special collective bargaining agreement signed with the Employee Council of the Technology Division of Mizrahi Tefahot Ltd. on November 27, 2013, the parties agreed to relocate the Bank's backup site from its current location to a new location and a better protected site, which is compliant with Bank of Israel regulations. The relocation projected has started and should be concluded in June 2015. Upon completion of this relocation, Bank Mizrahi Tefahot would no longer be reliant on the international provider for its backup site.

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Relocation of data center to Lod

Bank Mizrahi-Tefahot has decided to consolidate the data center services of the Technology Division at a new site in the city of Lod. This site would include the IT and telephony infrastructure currently located at the central site in Tel Aviv.
In 2010, construction of the site to hold the data center was completed. In 2011, the communications core was installed and some Bank employees were relocated to offices in Lod. Concurrently, the relocation of servers to the Lod site was started. In conjunction with the special collective bargaining agreement signed with the Employee Council of the Technology Division of Mizrahi Tefahot Ltd. on November 27, 2013, the parties agreed to relocate the Bank's main data center to the new site in Lod. The project for relocation of the open system environment has been completed and these systems are in operation at the new site. Relocation of the mainframe computer to the new Lod site is currently being planned.

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Information security

Bank Mizrahi Tefahot applies an information and cyber security policy, as specified and approved by management and by the Board of Directors.
This policy includes the commitment by Bank management with regard to ensuring the availability, privacy, integrity and reliability of information systems and assets of the Bank and its clients, with emphasis on maintaining client privacy and banking confidentiality.
Implementation of this policy, which integrates a proactive strategy, is achieved through a supporting organizational structure which includes the Cyber and Information Security Department, tasked with coordination, guidance, enforcement, control and reporting on such matters in cooperation with business units and operating units, as well as the Bank's Technology Division which deploys and operates defense perimeters and technological means to monitor events in real time and to provide a response to information security events by the information security team (SOC) and using the cyber situation room to address emergencies.
In addition, the Bank's Hybrid Banking sector is certified under the information security management standard ISO 27001.

Implications of information security risk and cyber incidents for the Bank

In line with technology development around the world, especially in cyber space, the Bank uses multiple channels, such as internet, telephone and cellular networks, which expose the Bank to cyber risk. According to estimates, there are concerns that these risk factors would be exacerbated in future.

The Bank regards the risk of cyber incidents as a key component of information security risk. Therefore, and in line with Bank of Israel requirements, the Bank regularly conducts a dynamic assessment of information and cyber security risk. In addition, the Bank takes specific measures to identify risk in those operations exposed to cyber incidents, in order to prevent and mitigate information security risk for Bank employees, subcontractors and outsourcers.
In 2014, there were no significant cyber attack events at the Bank.

Vendors

The Bank Group, through the Technology Division, has several significant suppliers of hardware and software infrastructure, some of which have unique expertise and knowledge of their field, or a limited number of suppliers operate in the relevant field:

- IBM – hardware and software for mainframes in a server environment and for storage infrastructure, including maintenance services. IBM provides the main infrastructure in hardware and software for the core banking systems. IBM is a major international corporation, providing similar services, on an almost exclusive basis, to all major banks in Israel, and to most of the world's major banks.
- Microsoft – operating systems and infrastructure for servers, computerized office and end stations.
- CA – mainframe software.
- Cisco - communications equipment.

Projects

The Bank Group, through the Technology Division, is pursuing multiple projects requiring major IT investment, which are in various development and deployment stages. These projects may be grouped as follows:
- Projects under development.
- Projects put into operation in recent years, which are handled in conjunction with the regular work plan.
- Development of IT infrastructure.

A. Projects under development:
- Continued development of the Hybrid Banking project, which was launched in 2011, including installation of an IP telephony system to replace the old call center systems and to link business systems at the call center and branches. Project development for the commercial side was completed in 2012. The Bank is about to complete its Hybrid system for the mortgage segment.
- Remodeling the transaction website and adding new functionality would position the Bank at the forefront of new technology applied to transaction websites.
- CRM system at Bank branches - customization of the CRM system for work at Bank branches, with emphasis on maximizing client opportunities. The Bank is expanding this project to the business segment.

B. Projects put into operation in recent years, which are handled in conjunction with the regular work plan:

- Trading room operation system - replacement of the current system used for operating the trading room, so as to adapt the computer system to the range of transactions and scope of operations.
- New mortgage system - completed conversion of Tefahot and Adanim mortgages to the new Shoham mortgage system. The Shoham project should be completed by end of 2015.
- Dedicated system for management of enquiries from the public. The system allows for improved, computer-based monitoring of how such enquiries are handled through resolution.
- Bank website – the existing website was replaced by a new one, based on advanced infrastructure.

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C. Development of IT infrastructure:

Investment in infrastructure development forms an important basis, allowing the Bank to support expansion of its business through development of new, state-of-the-art banking systems. This includes, inter alia, mainframe computer upgrade, server farm expansion and upgrade, storage system customization, communication system expansion and workstation replacement at branches.

Investments and expenses with respect to IT

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

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

	For the year ended December 31 (reported amounts)							
	2014				2013			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses(1)	149	22	64	235	141	24	58	223
Usage license expenses not capitalized into assets(2)	88	18	2	108	85	13	1	99
Outsourcing expenses(3)	30	2	1	33	24	2	1	27
Depreciation expenses(4)	175	35	3	213	156	30	4	190
Other expenses(5)	10	1	101	112	11	1	93	105
Total expenses	452	78	171	701	417	70	157	644

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

	For the year ended December 31 (reported amounts)							
	2014				2013			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses(1)	21	-	-	21	10	-	-	10
Cost of acquisition of usage licenses(2)	53	52	1	106	43	36	4	83
Outsourcing expenses(3)	83	1	-	84	78	-	-	78
Total	157	53	1	211	131	36	4	171

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

	For the year ended December 31 (reported amounts)							
	2014				2013			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total depreciated balance	483	92	9	584	463	81	10	554
Of which: Payroll and associated expenses	46	-	-	46	31	-	-	31

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

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

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

(4) For details of accounting policies with regard to depreciation expenses, see Note 1.K. to the financial statements.

(5) In 2014, includes NIS 53 million (In 2013: NIS 44 million) which constitutes payments to banks providing IT services to Bank Yahav. Also includes expenses with respect to rent and taxes, communication and general & administrative expenses.

Description of Businesses of the Bank Group by Operating Segment

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, 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.AA.4 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.

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

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

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

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

Financial Information on Operating Segments

Since uniform rules have not been prescribed to allocate the clients to the segments, it is not possible to compare information regarding the Bank's pro rata share of the Banking system in the different operating segments, in profit and return on capital.

Summary of financial results of operating sectors, as defined by the Bank, (reported amounts, NIS in millions) are as follows. See Note 30 to the financial statements for details.

Profitability

	Net profit		Share of total net profit (in %)		Return on equity (in %)	
	For the year ended December 31,					
	2014	2013	2014	2013	2014	2013
Household:						
Mortgages	405	(1)287	36.4	26.3	9.1	7.6
Other	(3)70	140	6.3	12.8	5.8	12.4
Private banking	24	18	2.2	1.6	31.8	19.8
Small business	(2)111	126	10.0	11.5	21.5	26.1
Commercial banking	65	65	5.8	6.0	15.4	14.4
Business banking	439	456	39.3	41.8	12.8	14.1
Financial management	(31)	(14)	-	-	-	-
Total	1,083	1,078	100.0	100.0	10.4	11.5

(1) In the second quarter of 2013, includes a non-recurring provision for credit losses amounting to NIS 191 million, due to application of the Supervisor of Banks' directive with regard to housing loans.

(2) The decrease in profit is primarily due to the increase in credit losses due to the group-based provision recognized as a result of significant growth in borrowing.

(3) The decrease in profit is primarily due to erosion of the margin from receiving deposits, due to the low interest rate environment.

Household segment

General information on the operating segment

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

In 2014, the Bank continued to deploy Hybrid Banking, which was launched in late 2011 and expanded its use to the mortgage segment as well. Hybrid Banking – an optimal combination of personal and digital banking, allowing all clients direct access to their personal banker at the branch by using a range of communication channels. This unique, innovative service concept puts to use technological advances in the banking world, to create an immediate, direct link between the client and their personal banker at the branch. Unlike other banking concepts, technology is not intended to replace personal bankers at the branch, but rather to bond and solidify their ties with clients. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 13 clusters. Later on, branch teams have been formed - each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by telephone, cell phone, SMS and email messages from anywhere during 12 hours of operation, from 8am to 8pm.

Products

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

Banking and finance

Most of the services are provided within this framework

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

Mortgages

The main services in the mortgage sector are loans from the Bank's funds; The Bank also acts to provide loans as part of the Ministry of Construction assistance program. Mortgage operations also include the offering of life and property insurance to borrowers (insurance incidental to the mortgage) via the Bank-owned insurance agency.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Change in %	
	2014	2013	2012	2014 over 2013	2013 over 2012
Mortgages issued (for housing and any purpose)					
From Bank funds	18,280	19,434	17,333	(5.9)	12.1
From Treasury funds:					
Directed loans	108	149	184	(27.5)	(19.0)
Standing loans and grants	173	197	215	(12.2)	(8.4)
Total new loans	18,561	19,780	17,732	(6.2)	11.5
Refinanced loans	3,309	2,645	1,755	25.1	50.7
Total loans originated	21,870	22,425	19,487	(2.5)	15.1
Number of borrowers (includes refinanced loans)	46,529	47,274	48,261	(1.6)	(2.0)

A description of the main mortgage services is provided below:

Loans out of Bank funds - loans out of Bank funds and at its risk, granted as free loans (which are not within the scope of the Ministry of Construction's aid program) for the purchase of real estate, for construction, generally for the borrower's residence as well as general-purpose loans. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank issues credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines the following elements or a part thereof: CPI-linked component at fixed or variable interest, non-linked NIS component bearing fixed or adjustable interest and a foreign-currency linked component bearing adjustable interest. The combined mortgage enables the Bank to maintain profitability and allowing clients to diversify risk.

In view of the low Bank of Israel interest rates, and its decrease in recent years, this year (similar to 2010-2013) saw borrowers prefer to take out adjustable-rate loans in the non-linked NIS-denominated sector as well as in the CPI-linked sector, where the interest rate is more attractive, compared to fixed-rate loans. However, in 2014 the share of loans bearing fixed interest in the linked and non-linked tracks increased.

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

Services in conjunction with the Ministry of Construction Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Housing recipients. These services include loans within the Ministry of Construction 's assistance program, including location-based loans and contingent grants. In the loans area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Housing eligible participants, such as issuance of eligibility certificates. The decision as to which a bank must apply for eligibility is up to clients who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Housing Loan Act. In recent years (including in 2014), this interest was often higher than the interest for loans extended by the Bank to all clients. Therefore, and due to elimination of special benefits previously available to eligible borrowers (such as bonuses) - the number of clients obtaining loans as part of these assistance programs has dropped over the years.

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

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

Bank revenues from all loans to eligible borrowers under State responsibility in 2014 amounted to NIS 56 million, compared to NIS 69 million in 2013 and to NIS 75 million in 2012.

For details of the agreement between the Ministry of Finance and banks, for provision of loans to eligible borrowers with low point rating out of Bank funds and under Bank responsibility, see Note 19.D.19.

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

Through November 30, 2005, some borrowers would obtain insurance coverage under insurance arrangements which were customary at the Bank at the time. As from December 2005, a call center is operated at an insurance company, which is a wholly-owned and wholly-controlled subsidiary of the Bank, and some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

Marketing of insurance

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

In order to maintain the required separation between the mortgage activities and insurance activities, special stations linked directly to the Bank-owned insurance agency were set up in the Bank branches that issue mortgages. These stations allow the client to contact the insurance agency and to purchase life insurance and property insurance.

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

	2013	2012	2011
Life insurance	96	91	101
Property insurance	21	24	26
Total revenues from sale of insurance	117	115	127

In 2014, life insurance revenues increased by 5.5% due, *inter alia*, to increased business volume. The decrease in property insurance revenues is due to lower commissions paid to the insurance agency and a lower rate for property insurance premium for clients, as stipulated by the Ministry of Finance.

Capital market

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

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients a range of credit cards are offered. In this area, the segment works vis-à-vis credit card companies Isracard and CAL. The Bank offers its clients credit cards that are issued by these companies when opening a private account in the Bank, according to the client's request. Credit card companies, on their part, use the Bank as a conduit for distributing their cards to the Bank’s clients. The Bank offers its clients almost all kinds of credit cards existing in the Israeli economy. The Bank also has several products in the credit card sector:

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

For details of the agreement with CAL group, inter alia, with regard to issuance of the branded credit card, see Note 19.D.14 to the financial statements.

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

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

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

Unique Bank services

The key unique service offered by the Bank is Hybrid Banking, which allows clients easy, direct access to a personal banker using a range of readily available technologies, as described above. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. Within this structure, the Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.

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

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

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

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

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

"**Priority Account**" – personalized banking assistance.

See the description of Competition in the segment below for alternatives to these products.

Legislation

In March 2013, the Supervisor of Banks issued a letter updating the directives with regard to residential real estate, given the rapid growth in loan portfolios secured by residential property and the significantly higher housing prices. In conformity with the directives, guidelines with regard to calculation of the group-based provision for credit losses with respect to housing loans were updated. Guidelines with regard to capital adequacy were also updated. See Note 14 to the financial statements for details.

On March 26, 2014, the Banking Ordinance (Customer Service) (Supervision of Basic Bundle Service), 2014 was made public. The Ordinance became effective on April 1, 2014. For more details, see the chapter on Legislation and Supervision of Bank Group Operations below.

In July 2014, the Supervisor of Banks issued a new directive concerning "Restrictions on provision of housing loans" designed, according to the Supervisor, "to reinforce the resilience of borrowers and of the banking system to potential negative impact upon a future increase in interest rates". This directive incorporates all of the directives and restrictions issued between 2010-2013 in a single document, which lists restrictions on the following:

- LTV ratio
- Repayment as percentage of income
- Percentage of loan bearing variable interest
- Repayment period

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

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

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

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

In December 2014, the Supervisor of Banks issued a directive concerning "Fast track for refinancing directed loans", to be applied from January 1, 2015 to May 31, 2015. This campaign allows Ministry of Construction eligible borrowers who have obtained directed loans (as part of State assistance) at an interest rate of 4% or higher, to apply to the bank where their loan is managed for an improved interest rate, to be determined based on the average interest published by the

Bank of Israel for the linked segment (for the remaining loan term). This campaign applies to all loans which meet the threshold criteria specified by the Bank of Israel (LTV ratio and loan in good standing) and is carried out by a lower-cost fast track procedure. The Bank has joined this campaign. For more information see Note 19.D.19.

For further details and description of the normative framework applicable to the Bank, and recently-published legislative arrangements, some of which have effect on operations of the household segment, see below in chapter on Legislation and Supervision of Bank Group Operations.

Technological changes

For technology changes, see chapter "IT and Computer Systems".

Critical success factors in the Household Segment

The Bank has a potential base of thousands of mortgage clients - a natural target audience for marketing of additional Bank products. Expansion of the client base and broadening the array of services to clients in the Household segment, while exploiting the reservoir of the mortgage clients represents another material factor for the success of this segment.

Bank Yahav clients also reinforce the retail segment operations, exposing them to potential operations in the mortgage segment of the Group.

Clients

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

Marketing and distribution

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

Bank branches – the Group operates 176 business centers, branches, affiliates and representative offices across the country, including 45 Yahav branches. The Bank continues to improve branch deployment and to expand its points of sale, through measures including the addition of commercial activity to the mortgage branches and mortgage activity in the commercial branches. For details, see chapter on Branches above.

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

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

- The Banking Center – the branch team at the Banking Center provides backup to branch bankers, conducts transactions and provides information to Bank clients, as part of the unified Hybrid Service provided to clients. This service is provided from 7am to midnight.

  As from November 2014, the Banking Center provides its services 24 hours a day (except for Saturdays and holidays).

  The Banking Center provides sales for the Instant Loan service, standing orders and credit cards as well as client preservation for non-bank credit cards.

  In 2015, the Hybrid Banking service would be extended to business clients at the Banking Center.
- Mortgage Center – provides a hub for activities related to mortgages: filing an application and obtaining advice on housing loans, obtaining information about existing loans and making arrangements and payments for delinquent loans.

  The Hybrid Banking service for mortgages operates at half of the Bank's branches and would be gradually expanded to all Bank branches by the end of the first quarter of 2015.

  In 2015, the interface with branches would be extended to increase mortgage sales, marketing of the Tefahot credit card and to intensify commercial collection activities.
- Sales center - intended to enhance selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of outbound sales calls. In addition, the sales center handles sales of Tefahot credit cards, refinancing mortgages from other banks for Bank clients, sale of car loans and churn prevention.

  In 2015, the Bank would intensify mortgage re-financing activities for commercial clients, churn prevention, re-activation of dormant accounts and enhance all operations by means of stronger interfaces with Bank branches.
- Investment center - provide skilled, professional rapid response to capital market clients for conducting transactions and investment advice, from 7am till midnight, recruiting new clients for deposits, maximize investment campaigns (Pomegranate, Cherry, Lychee etc.). The Center provides foreign currency services through a foreign currency extension of the trading room.
- Website – receive banking information and execute transactions in your account for a range of banking products available to Bank clients 24 hours a day, at a reduced cost.

  In January 2015, a new and advanced website was launched for investments and capital market, designed to allow Bank clients to enjoy one of the most advanced trading experiences in Israel.

  In 2015, the Bank is expecting to launch a new website for mortgages and to expand the service to business clients and international operations.
- Cell phone application – allows clients to obtain banking information and to conduct transactions using mobile internet on smartphones.

- Notification box service – receive notifications from the Bank about account activity through a personal notification box on the Bank website.
- Cell phone service – a system for disseminating banking and financial information through cell phones. In 2014, the range of text information messages sent to clients was expanded, including text messages for business clients.
- IVR telephone service – this service is provided to clients authenticated by a personal PIN, used to obtain computer-based information for common queries and to conduct transactions, such as order a checkbook, at no charge and receive information by fax at reduced cost. This service is offered 24 hours a day.
- PC-based service – this system is similar to Mizrahi Online, allowing for a direct connection to Bank computers (not via the Internet), which allows for faster processing.
- Fax service – allows clients to receive current banking information about their account on a range of topics, as specified by the client.

For more information, see chapter Branch Network and Direct Channels, above.

Competition

Banking and Finance, credit cards and the capital market

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

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

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

The Bank deals with the existing competition by aspiring to provide quality service and launching unique products. As noted above, the Bank believes that the Yahav acquisition holds potential for expanding activities in the household segment, based on on-going activities vis-à-vis clients.

Mortgages

Most of the mortgage activity in Israel is conducted through 10 banks operating in this field. For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the loans portfolio. Based on Bank of Israel data, the Group's share of providing housing loans (for residential purpose), out of Bank funds and guaranteed by the State, reached 34% at the end of 2014, compared to 36% at the end of 2013. The Bank's major competitors are Bank Leumi, Bank Hapoalim and Discount Bank. Insurance companies also compete in the mortgage sector. See below regarding barriers to entry and exit .

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

The main barriers to entry into this segment are:

- Client habits.
- Regulatory limitations.
- Minimum capital requirements.
- Training professional personnel.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Cooperation agreements

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

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

For details of the agreement signed with CAL Group, including a new arrangement whereby Bank-branded credit cards have been issued - see Note 19.D.14 to the financial statements.

Business goals and strategy

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

- Increasing household market share by broadening the client base, mainly among the clients of the former Bank Tefahot, the former Adanim Bank and clients of Bank Yahav, as a platform for achieving growth in market share and revenues.

- Retaining the Bank's share of the mortgages market and expanding it, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and retirement activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.

Material systems on which the segment relies for developing its operations are:

- CRM (Client Relations Management) system, aimed at presenting all relevant information to the Banker in order to offer appropriate products to the client and improve client relations.
- Computer system to support the mortgage origination and administration process, allows for online operations and processing, as well as daily updates of balances. The system allows for flexible specification and on-going operation of various mortgage products - allowing the Bank to be competitive and to rapidly react to changes in the business environment.
- In recent years, the Bank has upgraded its branch computer system, initiating use of ".NET" technology. This system positions the Bank in the top tier in terms of operations and service to clients and employees.

The results of the segment are exposed to a threat, due to reasons including the strong competition deriving from its attractiveness, since it is a segment in which the risk is low (due to the relatively high dispersal of clients). Additionally, the segment's results are affected by the entry of credit card companies into retail financing (for details see below).
The population of mortgage clients at the Bank and the Bank's holding stake in Bank Yahav, offer an opportunity to expand the Group's client base and to expand operations in the household segment.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic development in Israel and internationally, especially the state of the economy, demand for housing and mortgages, legislation, directives of regulatory entities, the behavior of competitors (including non-banking entities), aspects related to the Bank's image, technological development, developments in availability and price of properties and staffing issues.

Results of Household Segment

	For the year ended December 31, 2014					For the year ended December 31, 2013				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	501	24	-	2,444	2,969	395	25	-	3,269	3,689
Inter-segment	617	(5)	-	(1,688)	(1,076)	774	(5)	-	(2,594)	(1,825)
Total interest revenues, net	1,118	19	-	756	1,893	1,169	20	-	675	1,864
Non-interest financing revenues	-	-	6	-	6	-	-	7	-	7
Commissions and other revenues	205	135	194	185	719	237	130	176	228	771
Total revenues	1,323	154	200	941	2,618	1,406	150	183	903	2,642
Expenses with respect to credit losses	88	-	-	6	94	49	-	-	190	239
Operating and other expenses										
From outside operating segments	1,444	24	71	285	1,824	1,435	25	67	275	1,802
Inter-segment	(112)	(3)	-	-	(115)	(114)	(3)	-	-	(117)
Total operating and other expenses	1,332	21	71	285	1,709	1,321	22	67	275	1,685
Pre-tax profit	(97)	133	129	650	815	36	128	116	438	718
Provision for taxes on profit	(36)	51	49	245	309	12	44	40	151	247
After-tax profit	(61)	82	80	405	506	24	84	76	287	471
Net profit (loss):										
Before attribution to non-controlling interest	(61)	82	80	405	506	24	84	76	287	471
Attributable to non-controlling interest	(31)	-	-	-	(31)	(44)	-	-	-	(44)
Attributable to equity holders of the banking corporation	(92)	82	80	405	475	(20)	84	76	287	427
Return on capital (net profit as % of average capital)					8.4%					9.0%
Average balance of assets	16,596	2,734	-	88,037	107,367	15,746	2,899	-	80,009	98,654
Average balance of liabilities	62,548	2,734	-	113	65,395	59,782	2,899	-	-	62,681
Average balance of risk assets	16,178	-	-	49,192	65,370	15,411	-	-	42,020	57,431
Average balance of securities	-	-	37,945	-	37,945	-	-	31,406	-	31,406
Average balance of loans to the public	16,588	2,734	-	88,032	107,354	15,507	2,899	-	79,241	97,647
Average balance of deposits from the public	62,518	-	-	-	62,518	59,500	-	-	-	59,500
Loans to the public (end balance)	17,407	3,055	-	91,581	112,043	16,036	2,986	-	84,246	103,268
Deposits from the public (end balance)	65,701	-	-	-	65,701	60,793	-	-	-	60,793
Average balance of other assets managed	1,447	-	-	8,805	10,252	959	-	-	9,902	10,861
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	800	19	-	707	1,526	706	20	-	614	1,340
Margin from receiving deposits	313	-	-	-	313	455	-	-	-	455
Other	5	-	-	49	54	8	-	-	61	69
Total interest revenues, net	1,118	19	-	756	1,893	1,169	20	-	675	1,864

Contribution of the household segment to Group profit in 2014 amounted to NIS 475 million, compared to NIS 427 million in the corresponding period last year - an increase of 11.2%. These are the primary causes for change in segment contribution:

Contribution of mortgages in 2014 amounted to NIS 405 million, compared to NIS 287 million in the corresponding period last year - an increase of 41.4%. Net return on capital from mortgages was 9.1%, compared to 7.6% in the corresponding period last year. In the corresponding period, a non-recurring group-based provision amounting to NIS 191 million was recorded due to application of the Supervisor of Banks' directives with regard to housing loans. Net interest revenues before expenses with respect to credit losses amounted to NIS 756 million, compared to NIS 675 million in the corresponding period last year, an increase of NIS 81 million - primarily due to an increase in mortgage business volume and an increase of NIS 8.7 billion in the average balance. Commissions and other revenues decreased by NIS 43 million - primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues. See Note 1.C.1 to the financial statements for further information. Operating and other expenses increased by 3.6% year-over-year.

Contribution of the household segment (excluding mortgages) in 2014 amounted to NIS 70 million, compared to NIS 140 million in the corresponding period last year - a decrease of NIS 70 million. Net interest revenues before expenses with respect to credit losses decreased by NIS 52 million, primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment. Commissions and other revenues decreased by NIS 9 million, primarily due to application of FAS 91, as described above. Expenses with respect to credit losses in 2014 amounted to expense of NIS 88 million, compared to NIS 49 million in the corresponding period last year - an increase of NIS 39 million, due to the group-based provision with respect to consumer credit due to application of the Supervisor of Banks' directives (for more information see Note 1.C.3 to the financial statements). Operating expenses increased by 1% over the corresponding period last year.

Private Banking Segment

General information on the operating segment

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

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

The banks in Israel have invested substantial resources in recent years in the development and upgrading of the private banking services and in increasing their market share in this segment. This is due to the following factors:

- The potential in expanding business relationships with clients of a high socio-economic position assigned to this segment.
- Growing demand by clients of this segment for a high standard of professional and personal service, as prevails worldwide.
- Accelerated development of advanced investment products, such as: structured products, hedge funds, ETFs and others, which are alternatives to traditional products (savings accounts, securities etc.)

Products

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

- **Banking and finance** – A wide range of banking and finance products are offered to this segment's clients, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Credit cards** - the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.). This also includes mutual fund distribution services.

Legislation

A description of the normative framework applicable to the Bank, including to the Private Banking segment, is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

Technological changes

For technology changes, see chapter "IT and Computer Systems".

Critical success factors

The critical success factors in the Private Banking Segment include development of marketing and business activities that rest on the understanding of the clients' needs and on providing professional, fast and effective service that offers a comprehensive solution to the client's needs in all banking areas.

Clients

This segment serves clients with high financial wealth, mainly individual clients with liquid deposits and security investments exceeding NIS 2.5 million and business clients with such liquid balances in excess of NIS 8 million.
The client group served by this segment is heterogeneous, there are no material dependencies or relations between clients and the Bank, so that the private banking segment is not dependent on any specific group of clients whose loss may materially impact its operations.

Marketing and distribution

In addition to the marketing and distribution activities through the Bank's private banking department and through direct channels, conferences are conducted for clients in this segment, according to select population segments and inquiries through direct mail. The Bank has no dependence on outside marketing and distribution parties in this segment.

Competition

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.
In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.
In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

The main barriers to entry into this segment are:

- Regulatory limitations.
- Minimum capital requirements.
- Training professional personnel.
- Building and maintaining physical and technological infrastructure (IT systems, with emphasis on consulting systems and CRM).
- A supply of unique financial products.

Business goals and strategy

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

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

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

Results of Private Banking Segment

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	1	-	1	(15)	-	(15)
Inter-segment	62	-	62	77	-	77
Total interest revenues, net	63	-	63	62	-	62
Non-interest financing revenues	1	-	1	2	-	2
Commissions and other revenues	41	21	62	26	28	54
Total revenues	105	21	126	90	28	118
Expenses with respect to credit losses	3	-	3	-	-	-
Operating and other expenses						
From outside operating segments	79	1	80	75	1	76
Inter-segment	4	-	4	14	-	14
Total operating and other expenses	83	1	84	89	1	90
Pre-tax profit	19	20	39	1	27	28
Provision for taxes on profit	7	8	15	-	10	10
Net profit attributable to equity holders of the banking corporation	12	12	24	1	17	18
Return on capital (net profit as % of average capital)			31.8%			19.8%
Average balance of asset	2,143	-	2,143	1,814	-	1,814
Average balance of liabilities	8,584	-	8,584	7,002	-	7,002
Average balance of risk assets	840	-	840	1,007	-	1,007
Average balance of securities (1)	-	6,281	6,281	-	8,604	8,604
Average balance of loans to the public	955	-	955	1,217	-	1,217
Average balance of deposits from the public	7,973	-	7,973	6,444	-	6,444
Loans to the public, net (end balance)	1,051	-	1,051	956	-	956
Deposits from the public (end balance)	9,090	-	9,090	7,027	-	7,027
Average balance of other assets managed	6	-	6	6	-	6
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	24	-	24	30	-	30
Margin from receiving deposits	39	-	39	30	-	30
Other	-	-	-	2	-	2
Total interest revenues, net	63	-	63	62	-	62

Contribution of the private banking segment to Group profit in 2014 amounted to NIS 24 million, compared to NIS 18 million in the corresponding period last year - an increase of NIS 6 million.

Below are key factors affecting the change in segment contribution:

Net interest revenues in 2014 amounted to NIS 63 million, compared to NIS 62 million in the corresponding period last year, an increase of NIS 1 million - primarily attributed to higher deposit margin due to the higher balance of deposits attributable to this segment. Commissions and other revenues in 2014 amounted to NIS 62 million, compared to NIS 54 million in the corresponding period last year. Expenses with respect to credit losses in the current period amounted to an expense of NIS 3 million. In the corresponding period, no expenses with respect to credit losses were recorded. Total operating and other expenses decreased by NIS 6 million compared to the corresponding period last year. Operating expenses in this segment and in general are affected, *inter alia*, by business volume. The decrease in operating expenses is due to changes in attribution of indirect expenses in this segment.

Small Business Segment

General information on the operating segment

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

Products

Banking and finance

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

- Loans for various purposes – business loans, loans against the discounting of checking, credit cards etc.
- Import/export activities – foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: EDI (Electronic Data Interchange) online.
- Investments – an array of investment activities, such as: Various deposits for different terms.
- Management of checking account facilities – The facilities are determined according to the client's needs, turnover and judgment of the Bank.

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

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

Legislation

A description of the normative framework applicable to the Bank is provided under the chapter Legislation and Regulation of Bank Group Operations.

Technological changes

See the chapter on IT Systems above for the technological changes, including with respect to provident funds and pension consultancy.

Critical success factors

The critical success factors in this operating segment are personal service, providing banking solutions for the range of the client’s financial needs as well as a high-quality control system for credit quality and financial standing of clients.

Clients

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

Marketing and distribution

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

Competition

Competition in this operating segment is primarily within the banking system, as well as activity by non-bank credit providers, such as insurance companies, non-bank credit cards and various financing companies. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.
Due to differences among banks in segment definitions, the Bank is unable to estimate its market share of this segment.

The main barriers to entry into this segment are:

- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Customer habits – that are based on maintaining current relationships and reputation of banking institutions.

Business goals and strategy

The Bank's business strategy consists of expansion of its operations in the small business segment, while constantly evaluating risk at the individual client level and for the entire sector and industry.

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

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

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

Results of the Small Business Segment

	For the year ended December 31, 2014				For the year ended December 31, 2013			
	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	487	8	-	495	436	8	-	444
Inter-segment	24	(2)	-	22	24	(2)	-	22
Total interest revenues, net	511	6	-	517	460	6	-	466
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	201	17	15	233	215	15	18	248
Total revenues	712	23	15	750	675	21	18	714
Expenses with respect to credit losses	98	-	-	98	72	-	-	72
Operating and other expenses								
From outside operating segments	518	4	5	527	493	4	4	501
Inter-segment	(54)	-	-	(54)	(52)	-	-	(52)
Total operating and other expenses	464	4	5	473	441	4	4	449
Pre-tax profit	150	19	10	179	162	17	14	193
Provision for taxes on profit	57	7	4	68	56	6	5	67
Net profit attributable to equity holders of the banking corporation	93	12	6	111	106	11	9	126
Return on capital (net profit as % of average capital)				21.5%				26.1%
Average balance of assets	7,909	378	-	8,287	7,161	350	-	7,511
Average balance of liabilities	10,267	378	-	10,645	8,512	350	-	8,862
Average balance of risk assets	5,734	-	-	5,734	5,363	-	-	5,363
Average balance of securities	-	-	9,203	9,203	-	-	6,420	6,420
Average balance of loans to the public	7,888	378	-	8,266	7,053	350	-	7,403
Average balance of deposits from the public	10,233	-	-	10,233	8,767	-	-	8,767
Loans to the public, net (end balance)	8,611	407	-	9,018	7,290	377	-	7,667
Deposits from the public (end balance)	11,068	-	-	11,068	9,517	-	-	9,517
Average balance of other assets managed	167	-	-	167	198	-	-	198
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	443	-	-	443	377	-	-	377
Margin from receiving deposits	47	-	-	47	63	-	-	63
Other	21	6	-	27	20	6	-	26
Total interest revenues, net	511	6	-	517	460	6	-	466

Contribution of the small business segment to Group profit in 2014 amounted to NIS 111 million, compared to NIS 126 million in the corresponding period last year - a decrease of 11.9%. Below are key factors affecting the change in segment contribution: Net interest revenues amounted to NIS 517 million, compared to NIS 466 million in the corresponding period last year, an increase of 10.9% – due to an increase in business volume for both loans and deposits, offset by lower interest spreads from deposits due to the low interest environment. Expenses with respect to credit losses amounted to NIS 98 million, compared to NIS 72 million in the corresponding period last year, an increase of NIS 26 million - primarily attributed to increase in the group-based provisions due to significant increase in credit volume in this segment. Commissions and other revenues decreased by NIS 15 million, primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues (for details, see Note 1.C.1 to the financial statements). Operating expenses increased by 5.3%. Operating expenses in this segment and in general are affected, *inter alia*, by business volume. The increase in operating expenses is due to changes in attribution of indirect expenses in this segment.

Commercial Banking Segment

The Commercial Banking segment primarily includes medium-sized private and public companies (Middle Market), having turnover between NIS 30 - 120 million, and total indebtedness between NIS 6 - 25 million.
Segment clients are served under responsibility of the Bank's Business Division.

Products

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

Legislation

A description of the normative framework applicable to the Bank, including to this segment, is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

Technological changes

For details of technology changes and projects undertaken by the Bank's IT department, see below under Information Systems and Computing.

Critical success factors

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

Clients

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

Clients in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

Marketing and distribution

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

Competition

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

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

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

The major barrier to client transition between banks is the challenge of transferring collateral from one bank to another.

The main barriers to entry into this segment are:

- Regulatory limitations on banking corporations – including per-borrower and per-group of borrower limitations, These limitations are primarily effective for smaller banks in Israel.
- Minimum capital requirements – requirements due to total segment volume of activity.
- Training and retaining professional manpower – the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical clients and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Client habits – based on maintaining current relationships and reputation of banking institutions.

Business goals and strategy

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

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

The Bank operates, under the Business Banking Division, a dedicated sector serving clients of the various segments, through the three regional business centers.

For details regarding risk management, see chapter on Risk Management.

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Results of the Commercial Banking Segment

	For the year ended December 31, 2014				For the year ended December 31, 2013			
	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	173	-	-	173	190	-	-	190
Inter-segment	(12)	-	-	(12)	(24)	-	-	(24)
Total interest revenues, net	161	-	-	161	166	-	-	166
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	38	2	5	45	49	2	8	59
Total revenues	199	2	6	207	215	2	9	226
Expenses with respect to credit losses	(10)	-	-	(10)	(5)	-	-	(5)
Operating and other expenses								
From outside operating segments	54	-	1	55	67	-	1	68
Inter-segment	59	-	-	59	64	-	-	64
Total operating and other expenses	113	-	1	114	131	-	1	132
Pre-tax profit	96	2	5	103	89	2	8	99
Provision for taxes on profit	35	1	2	38	30	1	3	34
Net profit attributable to equity holders of the banking corporation	61	1	3	65	59	1	5	65
Return on capital (net profit as % of average capital)				15.4%				14.4%
Average asset balance	4,350	46	-	4,396	4,640	49	-	4,689
Average balance of liabilities	4,064	46	-	4,110	3,456	49	-	3,505
Average balance of risk assets	4,700	-	-	4,700	5,028	-	-	5,028
Average balance of securities(1)	-	-	4,099	4,099	-	-	3,806	3,806
Average balance of loans to the public	4,319	46	-	4,365	4,604	49	-	4,653
Average balance of deposits from the public	4,046	-	-	4,046	3,485	-	-	3,485
Loans to the public, net (end balance)	4,186	54	-	4,240	4,462	55	-	4,517
Deposits from the public (end balance)	4,546	-	-	4,546	3,408	-	-	3,408
Average balance of other assets managed(2)	293	-	-	293	284	-	-	284
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	145	-	-	145	143	-	-	143
Margin from receiving deposits	13	-	-	13	16	-	-	16
Other	3	-	-	3	7	-	-	7
Total interest revenues, net	161	-	-	161	166	-	-	166

Contribution of the commercial banking segment to Group profit in 2014 amounted to NIS 65 million, unchanged from the corresponding period last year. Below are key factors affecting the change in segment contribution: Net interest revenues decreased by NIS 5 million, primarily due to lower margins on deposits received, due to the low interest environment. Commissions and other revenues decreased by NIS 14 million, primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues (for details, see Note 1.C.1 to the financial statements). Expenses with respect to credit losses in the current period amounted to a decrease in expense of NIS 10 million, compared to a decrease in expense of NIS 5 million in the corresponding period last year. The decrease in expense in both periods is attributed to collection from a few individual clients. Total operating expenses decreased by NIS 18 million compared to the corresponding period last year. Operating expenses in this segment and in general are affected, *inter alia*, by business volume. The decrease in operating expenses is due to changes in attribution of indirect expenses in this segment.

Business Banking Segment

General information on the operating segment

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with total indebtedness exceeding NIS 25 million per client and turnover in excess of NIS 120 million. This segment also includes the banking service group for companies in the construction and real estate sector - even if they have medium indebtedness levels. This is in accordance with the approach of the Bank's Executive Management regarding the segment allocation of the real estate activities and corresponds with the manner in which these customers are serviced. The Bank's business division is in charge of serving clients of this segment.

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

Products

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

Real estate

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

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

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

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

Purchase groups - a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.

The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations. Below we describe some of this legislation and other arrangements, which impact operations of the Business Banking segment.

Transactions with related parties - pursuant to Proper Conduct of Banking Business Regulation No. 312 ("Banking Corporation's Business with Related Parties"), the Bank is subject to a restriction, whereby the indebtedness of any Group component may not exceed the product of its share of the controlling block and 10% of the banking corporation's capital, i.e. 5% for each of the controlling shareholders' borrower groups.
For details of criteria for transactions with controlling shareholders, specified by the Audit Committee and its reconfirmation, see chapter Transactions with Controlling Shareholders below.
On July 10, 2014, the Supervisor of Banks issued an update to Proper Conduct of Banking Business regulation no. 312, with an effective start date of January 1, 2015. The Bank is applying this directive. For details of this update, see chapter Legislation and Supervision of Bank Group Operations, below.

Financing acquisition of means of control – The provisions of Proper Conduct of Banking Business Regulation No. 323 ("Financing an Acquisition of Means of Control in Corporations") limit the balance of loans given to acquire the means of control in corporations, where the percentage of the financing for this acquisition exceeds 50% of the acquisition cost, at a percentage not to exceed 70% of the Bank's capital. Additionally, the regulation limits the balance of credit given by a banking corporation for an acquisition of the means of control of another banking corporation or a banking holding company, when the percentage of the financing of such an acquisition exceeds 30% of their acquisition cost, to the lower of 5% of the lending bank's capital or 5% of the capital of the acquired bank, or another rate that the Supervisor prescribes for a bank corporation with capital below NIS 500 million. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

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

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

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

Financial assistance - Proper Conduct of Banking Business Regulation 326 on Financial Assistance stipulates that a banking corporation shall not finance a construction project using the financial assistance method, unless a book of payment vouchers is produced and provided to the construction contractor for each apartment to be sold in the project. This is designed to secure funds of apartment buyers in project financed using the financial assistance method, and to ensure concentration of resources designated for project construction, and in particular proceeds from sale of apartments, in the project account designated for this purpose. These payment vouchers will be used for all payments to be made by the apartment buyer to the developer for the cost of the apartment. The regulation specifies the details to be included on each payment voucher. The regulation required the banking corporation to issue a guarantee to the apartment buyer for any amount paid by a payment voucher, or to ensure provision of other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the regulation precsribes arrangements for providing information to buyers with regard to matching of the project account to a specific project, and determines the details to be included in the assistance agreement with the developer in order to allow for implementation of the voucher system.
This regulation applies to financial assistance agreements signed on June 1, 2008 or later.

Credit risk management – in December 2012, the Bank of Israel issued Proper Conduct of Banking Regulation 311 concerning credit risk management, which includes, inter alia, a definition of the credit risk management structure required of banking corporations and the allocation of authority at the bank with regard to credit risk management. The directive is effective as from January 1, 2014 and the Bank applies it as of that date.

Proper Conduct of Banking Business Regulation re: capital adequacy (Basel II) - the Business Division, which is in charge of the Business Banking segment, implements the implications of Basel II directives, in conjunction with the Bank's overall activity concerning this issue. The Business Division deals mainly with the credit aspects deriving from the Basel II directives and related directives. For details of the Basel II and Basel III directives, see below the chapter on Legislation and Supervision of Bank Group Operations.

Technological changes

See the Chapter on IT systems and computerization for information on technological changes and the computerization projects being carried out in the Bank.

Critical success factors

Critical factors for success in the Business Banking segment include a strong ability to analyze the client's needs and their financial condition. Identification of risk arising from activity vis-à-vis clients, including as a result of expected changes in the economy and the industry in which it is engaged, and provision of professional, fast and effective service that offers a comprehensive and appropriate solution to the client's needs in all banking areas. This is done while by a variety of innovative financial products and solutions. The Bank also sees the continuous, high-quality monitoring of risk and handling of troubled debt as a key tool for managing the credit portfolio in this sector, allowing the Bank to minimize exposure to credit losses.

Clients

Segment clients are large business clients in various economic sectors. Some of these companies do business both in Israel and overseas. Clients of this segment use most banking areas, including credit, savings, trading room, foreign trade etc. In this segment, there is no dependence on a major individual client.

Marketing and distribution

The main marketing and distribution parties in this segment are the managers and client managers in the Business Banking Division, concurrent with the Bank's branches and business centers.

In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in factoring, foreign trade, capital market, trading room operations etc. - in order to provide a comprehensive solution for client needs.

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

Real estate clients are served by the construction and real estate segment, which is also part of the Business Division, and which operates, *inter alia*, via three business departments, the Purchase Group Department and 20 branches, specialized in providing financial assistance and located in major areas of operations in this segment.

Competition

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

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

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

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

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

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

The main barriers to entry into this segment are:

- Regulatory limitations on banking corporations – including per-borrower and per-group of borrower limitations, This is due to the large credit volume required for operations in this segment.
- Minimum capital requirements – requirements due to business activity volume.
- Training and retaining professional manpower – the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical customers and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions. These factors form a significant barrier to entry for financing providers wishing to launch operations in this segment.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Business goals and strategy

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

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

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

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

For details regarding risk management, see chapter on Risk Management.
This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the capacity to raise funds in the capital market and demand for real estate, economic policies, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Business Banking Segment

	For the year ended December 31, 2014				For the year ended December 31, 2013			
	Banking and finance[1]	Capital market	Construction and real estate	Total	Banking and finance[1]	Capital market	Construction and real estate	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	164	-	345	509	71	-	348	419
Inter-segment	324	-	(89)	235	423	-	(124)	299
Total interest revenues, net	488	-	256	744	494	-	224	718
Non-interest financing revenues	14	11	-	25	22	10	-	32
Commissions and other revenues	84	22	135	241	68	27	124	219
Total revenues	586	33	391	1,010	584	37	348	969
Expenses with respect to credit losses	(75)	-	72	(3)	25	-	(42)	(17)
Operating and other expenses								
From outside operating segments	181	7	31	219	173	6	32	211
Inter-segment	74	-	15	89	64	-	15	79
Total operating and other expenses	255	7	46	308	237	6	47	290
Pre-tax profit	406	26	273	705	322	31	343	696
Provision for taxes on profit	153	10	103	266	111	11	118	240
Net profit (loss) attributable to equity holders of the banking corporation	253	16	170	439	211	20	225	456
Return on capital (net profit as % of average capital)				12.8%				14.1%
Average asset balance	17,465	-	8,201	25,666	17,201	-	8,225	25,426
Average balance of liabilities	43,349	-	2,613	45,962	36,027	-	2,385	38,412
Average balance of risk assets	18,415	-	19,747	38,162	18,407	-	17,703	36,110
Average balance of securities[2]	-	69,765	-	69,765	-	62,203	-	62,203
Average balance of loans to the public	15,464	-	8,006	23,470	16,144	-	7,591	23,735
Average balance of deposits from the public	43,348	-	2,513	45,861	35,993	-	2,292	38,285
Loans to the public, net (end balance)	13,414	-	7,803	21,217	14,270	-	7,887	22,157
Deposits from the public (end balance)	44,275	-	2,842	47,117	40,842	-	2,625	43,467
Average balance of other assets managed[3]	590	-	41	631	180	-	50	230
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	388	-	227	615	394	-	188	582
Margin from receiving deposits	85	-	10	95	81	-	15	96
Other	15	-	19	34	19	-	21	40
Total interest revenues, net	488	-	256	744	494	-	224	718

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

Contribution of the business banking segment to Group profit in 2014 amounted to NIS 439 million, compared to NIS 456 million in the corresponding period last year - a decrease of 3.7%.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sub-segment decreased by NIS 55 million, or 24.4%, in 2014 compared to the corresponding period last year. Interest revenues, net amounted to NIS 256 million, compared to NIS 224 million in the corresponding period last year - an increase of 14.3%, attributed to significant increase in lending margins. Expenses with respect to credit losses amounted to expense of NIS 72 million, compared to a decrease in expense of NIS 42 million in the corresponding period last year. The expense in the reported periods is primarily attributed to a provision with respect to several individual clients, while the decrease in expenses in 2013 is attributed to collection of previously written-off debt. Commissions and other revenues increased by NIS 11 million. The increase in commissions and other revenues is primarily 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 increased by NIS 38 million, or 16.5%, 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 13 million year over year, due to the lower average loan balance. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, amounted to reduced expenses by NIS 75 million, compared to expenses amounting to NIS 25 million in the corresponding period last year. The lower expense in the current period is primarily due to previously written-off debt. Commissions and other revenues increased by NIS 11 million over the year-ago period, with commissions from financing business increasing on the one hand and on the other hand, other commissions decreasing due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues (for details see Note 1.C.1 to the financial statements).

Total operating and other expenses attributed to business banking, excluding construction and real estate, increased by 7.8% compared to the corresponding period last year. Operating expenses in this segment and in general are affected, *inter alia*, by business volume. The increase in operating expenses is due to changes in attribution of indirect expenses in this segment.

Financial Management Segment

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

The Financial Management segment operates in Israel and overseas. Operations of this segment are managed by the Financial Division, except for investments in non-banking corporations which are managed by the Business Banking Division. Business in this segment is subject to the relevant risk management policy and to restrictions imposed by the Board of Directors and by management on various exposure levels.

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

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

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

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

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

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivative instruments. The trading room also serves major clients trading in securities in Israel and overseas.

Business goals and strategy

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

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits in different linkage segments and for different terms, and by issuing obligatory notes.

This segment also includes Bank operations in the trading room on financial and capital markets. The Bank constantly strives to expand its operations in this area by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

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

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

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the capacity to raise funds in the capital market, economic policies, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Financial Management Segment

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(772)	-	(772)	(1,263)	-	(1,263)
Inter-segment	769	-	769	1,451	-	1,451
Total interest revenues, net	(3)	-	(3)	188	-	188
Non-interest financing revenues	133	7	140	(31)	3	(28)
Commissions and other revenues	91	48	139	82	52	134
Total revenues	221	55	276	239	55	294
Expenses with respect to credit losses	(9)	-	(9)	(1)	-	(1)
Operating and other expenses						
From outside operating segments	321	6	327	295	4	299
Inter-segment	17	-	17	12	-	12
Total operating and other expenses	338	6	344	307	4	311
Pre-tax profit (loss)	(108)	49	(59)	(67)	51	(16)
Provision for taxes on profit (loss)	(42)	19	(23)	(23)	17	(6)
After-tax profit (loss)	(66)	30	(36)	(44)	34	(10)
Share in net profits of associates, after tax	5	-	5	(4)	-	(4)
Net profit (loss):						
Before attribution to non-controlling interest	(61)	30	(31)	(48)	34	(14)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	(61)	30	(31)	(48)	34	(14)
Return on capital (net profit as % of average capital)			-			-
Average asset balance	39,959	-	39,959	30,665	-	30,665
Of which: Investments in associates	52	-	52	60	-	60
Average balance of liabilities	43,320	-	43,320	38,490	-	38,490
Average balance of risk assets	5,245	-	5,245	5,366	-	5,366
Average balance of provident and mutual fund assets	87,171	-	87,171	82,642	-	82,642
Average balance of securities [1]	-	77,576	77,576	-	61,525	61,525
Average balance of deposits from the public	16,241	-	16,241	17,010	-	17,010
Deposits from the public (end balance)	14,857	-	14,857	17,032	-	17,032
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	(3)	-	(3)	188	-	188
Total interest revenues, net	(3)	-	(3)	188	-	188

Contribution of the financial management segment to Group profit in 2014 amounted to a loss of NIS 31 million, compared to a loss of NIS 14 million in the corresponding period last year. Below are key factors affecting the change in segment contribution: Total financing revenues (net interest revenues and non-interest financing revenues) decreased by NIS 23 million, primarily due to differences in fair value and other effects and to linkage differentials for a CPI position between the current period and the corresponding period last year. For details, see analysis of evolution of financing revenues from current operations in chapter "Profit and profitability". Commission and other revenues increased by NIS 5 million compared to the corresponding period last year. This increase is primarily due to increased revenues from trust operations and to capital gain, which reflect the Bank's operating results in asset re-organization and improvements to the branch network. Operating and other expenses increased by NIS 33 million. Operating expenses in this segment and in general are affected, *inter alia*, by business volume. The increase in operating expenses is due to changes in attribution of indirect expenses in this segment.

Expenses with respect to credit losses amounted to a decrease in expense of NIS 9 million, compared to a decrease in expense of NIS 1 million in the corresponding period last year, due to collection of bad debt.

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 year ended December 31, 2014			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	19	6	-	25
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	135	17	2	154
Total revenues	154	23	2	179
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	21	4	-	25
Pre-tax profit	133	19	2	154
Provision for taxes on profit	51	7	1	59
Net profit	82	12	1	95

	For the year ended December 31, 2013			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	20	6	-	26
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	130	15	2	147
Total revenues	150	21	2	173
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	22	4	-	26
Pre-tax profit	128	17	2	147
Provision for taxes on profit	44	6	1	51
Net profit	84	11	1	96

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

	For the year ended December 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	6	-	-	1	11	7	25
Commissions and other revenues	194	21	15	5	22	48	305
Total revenues	200	21	15	6	33	55	330
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	71	1	5	1	7	6	91
Pre-tax profit	129	20	10	5	26	49	239
Provision for taxes on profit	49	8	4	2	10	19	92
Net profit	80	12	6	3	16	30	147

	For the year ended December 31, 2013						
	House-holds	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consoli-dated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	7	-	-	1	10	3	21
Commissions and other revenues	176	28	18	8	27	52	309
Total revenues	183	28	18	9	37	55	330
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	67	1	4	1	6	4	83
Pre-tax profit	116	27	14	8	31	51	247
Provision for taxes on profit	40	10	5	3	11	17	86
Net profit	76	17	9	5	20	34	161

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 Israeli customers who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as stated below.
International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, affiliate operations are supervised and controlled by various Bank entities, as described below.

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 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.

- **Cayman Islands Branch**: The Cayman Islands branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

  In 2011, Bank management decided to discontinue active marketing of the Cayman Islands branch, intending to close the branch altogether. Consequently, the branch started operating in RUN OFF mode. Over the years, branch activity was reduced, until it was closed at the end of 2014. In January 2015, the local regulator in the Cayman Islands approved the return of the branch license and final closing thereof.

International private banking branches in Israel - The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident 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.

Legislation and regulation

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

Subsidiary in Switzerland - Federal Supervisory Authority of Switzerland FINMA.

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

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

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

Uruguay affiliate - Banking regulation - Banco Central Del Uruguay.

Panama affiliate - banking supervision - Superintendencia de Bancos.

Germany affiliate - Financial Supervisory Authority - Financial Supervisory Authority (BaFin)

International operations involve several unique risk factors:

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

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

In order to handle geographic distance, which increases control risk, professional representatives of the Bank conduct regular visits to these affiliates. The Internal Audit Division conducts regular audits at Bank affiliates, conducted by Division staff and by external professional entities. Risk management and internal control at affiliates are conducted jointly by the International Operations sector, the Legal Division, the Risk Control Division and the Audit Division. Credit risk is managed by specific limits set for the affiliates. Credit applications are discussed by the relevant credit committees of Bank management. The Bank's Risk Control Division monitors and controls credit at affiliates, based on the annual work plan approved by the Bank and using local controllers who report directly to the Division. Market risk at affiliates is regularly managed by the affiliates and by the Financial Management Sector, by imposing limits on risk management benchmarks (PV and VAR) for each affiliate and by monitoring these limits by the Risk Control Division.

Operating risk at affiliates is monitored by the Risk Control Division, and affiliates report using a uniform format of any materialized operating event. The Compliance Department and the Risk Control Department in the Risk Control Division conduct external surveys, including operating risk and compliance surveys at affiliates, and monitor the resolution of any control gaps identified. SOX surveys are conducted by the Accounting and Financial Reporting Division. AML and terror financing risk as well as compliance risk is managed by the Compliance Department. In order to handle money laundering and terror financing issues, operating procedures for this matter have been determined by affiliates, workshops are delivered to relevant affiliate staff, a person responsible for such issues has been appointed under International Operations, a forum has been established for prevention of money laundering and global terror financing, and technology systems for monitoring money laundering risk have been acquired.

Results of international operations are attributed to the various segments. Analysis of results of the various segments includes reference to the effect of attribution of international operations to each segment, whenever this effect is significant.

For details regarding risk management at the Bank, arising from international operations as well, see the chapter on Risk Management below.

Affiliate operations in a competitive market

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

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

Business goals and strategy

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

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include future forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities in Israel and overseas, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Results of international operations are divided among the different segments. Analysis of segment results below makes reference, inter alia, to the impact of assignment of international operations to the various segments, wherever such impact has been material.

Below are details of the impact of international operations on results of the different operating segments of the Bank Group (NIS in millions):

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

					All of 2013
	Households	Private banking	Business banking	Financial management	Total
	Reported amounts (NIS in millions)				
Interest revenues, net	5	44	49	27	125
Non-interest financing revenues	-	1	8	1	10
Commissions and other revenues	1	42	4	2	49
Total revenues	6	87	61	30	184
Reduced expenses with respect to credit losses	-	(2)	-	-	(2)
Operating and other expenses	3	67	39	7	116
Pre-tax profit	3	22	22	23	70
Provision for taxes on profit	-	7	7	8	22
Net profit	3	15	15	15	48

Human Resources

Staff – general information

Provided below is information on the number of employees, in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies associated with the Bank, including employees of Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies that provide computerization, security and protection services to the Bank:

	2014					
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Group total
Number of full-time equivalent positions as of December 31, 2014	4,883	58	4,941	898	25	5,864
Number of full-time employees based on monthly average	4,837	57	4,894	900	26	5,820

	2013					
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Group total
Number of full-time equivalent positions as of December 31, 2013	4,805	56	4,861	918	26	5,805
Number of full-time employees based on monthly average	4,752	56	4,808	907	27	5,742

Below is the distribution of number of positions in the Group by operating segment[(1)]:

	As of December 31,	
Operating segment	2014	2013
Households	3,626	3,589
Private banking	123	156
Small business	991	913
Commercial banking	256	298
Business banking	537	531
Financial management	331	318
Total	5,864	5,805

(1) Including Head Office employees that are allocated pro-rata to the various segments.

Human resource management

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

One is services to individual employees, from recruiting through ongoing services and up to retirement.

The Human Resource Division is acting to brand the Bank “a preferred workplace” for employees and candidate recruits. This is based on the organizational concept whereby satisfaction of Bank clients and employees who are happy to be working at the Bank – are intertwined. Consequently, the Human Resource Division leads processes to foster relations with employees through interfaces such as: milestones in employees’ lives, recognition and promotion of outstanding employees, recognition of Bank retirees, various activities for employees and their families and other activities designed to implement the organizational concept of promoting human resources at the Bank.

The second level is in the organizational development and training department, in conjunction with development of the Bank's human resources in all aspects.

The Bank invests in development of its staff and constant improvement of the professional and personal skills of Bank employees and managers. This is achieved through training events throughout employee tenure at the organization, from starting on the job, through promotion and development tracks and a range of training programs for banking, personal and managerial skills**.** In addition, the Bank encourages achievement and expansion of academic education of its employees, as well as broadening their horizons via external workshops.

The Organizational Development Division is in charge of the comprehensive process of employee evaluation and feedback at the Bank. All Bank managers and staff are evaluated based on their performance every year. The process is concluded by a feedback interview between the employee and their supervisor, at which they discuss issues to be improved and preserved, targets for the coming year and potential professional development for the employee.

The Department is also responsible for development of intra-organizational communication, by expanding and intensifying channels for relaying messages and exposing the Bank to employees, by presenting the detailed organizational chart on the Intranet, meetings between senior management and employees during courses and through "Among us Online", a monthly newsletter, which highlights professional issues, Bank departments and employees through various articles.

The Bank Training Center is responsible for professional and managerial training of Bank employees, as well as for refresher courses - as required for each position. To this end, the Training Center creates a schedule of courses, seminars and workshops in response to regulatory requirements, knowledge and learning of Bank systems and knowledge gaps in various banking disciplines and in management skills.

In 2014, the Training Center deployed the Hybrid Banking concept for mortgages to all mortgage managers and bankers. It also continued to deploy the Hybrid Banking concept to managers and employees in the commercial banking segment. Concurrently, it emphasized deployment of existing and new regulations.

The SMART project (professional skills gym), launched in 2014, strives to identify knowledge gaps in various roles and to create a custom training program.

In 2014, the Bank continued implementation of the management development concept, which regards unit managers as leaders of organizational change and as responsible for their employees' professional skills - and maintained cadres for future roles, such as the Target Program for senior management, advanced management course and management trainees.

The marketing strategy service concept was deployed by the Generating Joy at Mizrahi Tefahot program. As part of formulating and deploying this concept, discussions were held, involving hundreds of Bank managers and employees. The outcome of these discussions was incorporated in the program. Once the program was formalized, all Bank managers and employees were trained and various activities took place, designed to establish and implement this concept as part of the Bank’s organizational culture. The program is constantly assisted by steering teams on various topics, which monitor the program’s evolution and implementation. A major part of this concept involves reinforcing the sense of Joy among Bank employees. To this end, in 2014 the Bank conducted various activities to promote Joy among Bank employees.

The Training Center continued to implement the Learning Organization concept, whereby managers and staff regard learning as a continuous activity which also takes place at their work station, through materials made available to managers and employees through the Bank's Learning Portal. Learning is also achieved through "Did you know?" messages disseminated throughout the Bank, as well as through "Learning Bank".

In order to improve professional skills and to streamline learning processes, the Training Center conducts a regular effectiveness testing of new learning content as well as of existing learning content. In 2014, the Training Center developed 19 new courses and seminars, and improved 16 existing courses, using a mix of learning methods.
Training expenses in 2014 amounted to NIS 9 million, compared to NIS 7 million in the previous year.
In 2014, all Bank employees attended training (in-person and online), for a total of 31,365 training days, compared to 29,478 training days in 2013.

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees, as described below), which are expressed in two employee organizations:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which has been authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: "Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employee's Association as a "bargaining unit" for negotiation and signing agreements.

C. **Bank Mizrahi Tefahot Ltd. Technology Division Employee Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. **Bank Yahav employee representatives** - empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

Employment terms of employees represented by the Bank's Employee Association

General

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

On February 20, 2014, the Bank received the arbitrator's decision with regard to payment of vacation pay.

The arbitrator decided that from 2014, the rate per vacation day would be determined based on the calculation used through 2008 (unless the parties agree otherwise). The arbitrator's decision also stipulated that the Bank would pay employees and those employees who have retired since 2009 differences in vacation pay for 2009-2013. These differences would be subject to social benefits as is customary at the Bank, with interest and linkage differentials. The differences in vacation pay, in conformity with the arbitrator's decision, were paid in 2014.

Salary agreements

In December 2003, a salary agreement was signed for the period 2002-2004, which was effective through December 31, 2004. This agreement applies to all Bank employees, except for those employees who, on December 31, 2004, were employees of the former Bank Tefahot, which was merged with the Bank on January 1, 2005.

On January 18, 2006, a salary agreement was signed for the period April 1, 2004 through March 31, 2005, for those who on December 31, 2004 were employees of Bank Tefahot, and then became employees of the Bank.

On December 21, 2005 and on January 23, 2006, agreements were signed with regard to conversion of salaries of former managers and employees of Bank Tefahot, respectively, to the salary regime used at Bank Mizrahi, and the labor constitution was applied to those employees (hereinafter: ("salary conversion agreements").

No salary agreement has been signed yet for the period 2014-2005 (except with former Tefahot employees, for whom a salary agreement was signed for the period through March 31, 2005). The Bank records, as necessary, appropriate provisions for years for which no salary agreements have been signed.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank - see chapter on Individual Employment Contracts below) are updated, in addition to cost of living adjustments in Israel, based on three key components:

A. Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements. The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank.

B. Components updated in accordance with changes in the Consumer Price Index.

C. Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employee Association. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate. In a reality of low single-digit inflation, these factors lead to an increase in real salaries, despite the absence of an update to the wage agreement.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank, about which Bank management decides each year, as well as via the bonus component. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the individual assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Pension and benefit arrangements

A. Bank liabilities for payment of pensions and severance pay to those employed by the Bank prior to the merger with Tefahot are covered by current contributions in the employees' names to pension, provident and severance pay funds. These contributions, as well as future amounts and a one-time amount deposited in the past, release the Bank from its statutory obligation to pay severance pay to those employees. See Note 16 to the financial statements for additional information.

B. Pursuant to the labor agreement signed between the Bank and its employees on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection. See Note 19.D.16 to the financial statements for additional information.

C. Those who were employees of Bank Tefahot on the eve of the merger are covered by the Bank's obligations to pay pension and severance pay by regular deposits in the employees' names to pension, benefit and severance pay funds as well as one-time deposits. These deposits release the Bank from the obligation make severance and pension payments for the period commencing February 1, 2006, for those employees who were included in the salary conversion agreement. with respect to its liability through February 1, 2006, the Bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds See Note 16. to the financial statements for information on the special liability for retirement of employees in the Bank or the former Bank Tefahot.

Special collective bargaining agreement

On April 11, 2006, the Employee Association and the Bank signed an agreement to end the labor dispute, declared with regard to the merger with Bank Tefahot ("special collective bargaining agreement"). Provisions of the special collective bargaining agreement are effective through December 31, 2010 ("term of the special collective bargaining agreement"). It stipulates, inter alia, that during the term of the special collective bargaining agreement, all of the disputes will be resolved by the mechanisms prescribed, the objective of which is to prevent the striking of the Banks' activities and applying to the relevant bodies, in order to reduce the deviations prescribed in the agreement (such as in the event of a strike of the entire economy). Therefore, throughout the term of the special collective bargaining agreement, labor unrest will be avoided, whereby the Association has undertaken that it will not go on strike. Due to the signing of the agreement, the parties to the agreement withdrew the legal proceedings between them that were outstanding and pending.

The agreement stipulates that Bank employees may choose whether or not to be members of the Employee Association. Note that the collective bargaining agreements that the Bank signs with the Employee Association also apply to those employees who are not members of the organization. The collective agreement also increased the quota of employees that may be employed under personal agreements. Furthermore, under the terms of the special collective bargaining agreement, the parties agreed to establish a collective bargaining unit for managers, as defined , alongside the collective bargaining unit for all Bank employees (regarding the agreement between the Manager Council and the Bank, see below).

On September 16, 2009, a special collective bargaining agreement was signed with the employee union, whereby the special collective bargaining agreement signed in 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

Highlights of the agreement, as for the old agreement, are as follows:

- Extension of the "employment constitution" through December 31, 2015.
- Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
- Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
- The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
- Enactment of a voluntary retirement program by up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
- Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

The financial statements include an actuarial provision in accordance with directives of the Supervisor of Banks, to cover the expected cost of early retirement of all Bank employees. See Note 16 to the financial statements for details.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

A. On April 10, 2006, the Manager Council and the Bank signed a special collective bargaining agreement in which the Bank and the Manager Council ratified the pact (hereinafter, together with previous agreements between the parties: "manager constitution"), in which the Bank recognized the Manager Council as a collective bargaining unit, within the scope of which principles were prescribed according to which the Bank would act to promote Bank managers' ranks. The manager constitution stipulates, *inter alia*, ways to resolve conflicts through reconciliation, restriction of the number of managers employed under individual contracts as well as financing for the Manager Council. The Bank has undertaken that the salary agreements and employment terms of members of the Manager Council will be determined in negotiations with the organization although the organization has the right reserved to it, as long as a salary is not signed between it and the Bank, to adopt a salary agreement entered into with the Employee Association, instead of negotiating with the Bank or continue it.

The parties also stipulated that the manager constitution will be in effect until September 19, 2008. If the organization does not cancel it until one month of days previously, the effective period of the constitution will be extended until September 19, 2011, and thereinafter, for a two-year period each time, unless one of the parties gives written notice of its cancellation, all in accordance with the mechanism prescribed in the manager constitution. For details of extension of validity of the manager constitution through December 31, 2015, see section D. below.

B. By virtue of the pact and the collective agreement to ratify the pact signed between the Bank and the Manager Council (see below), the collective agreements signed between the Bank and the Employee Council signed until September 19, 2005 apply to the managers, as well as all the agreements that were and will be signed between the Bank and the Manager Council from September 19, 2005 and thereinafter.

C. On March 22, 2007, the Manager Council and the Bank signed a salary agreement for 2005-2007, with the parties agreeing to the annual salary raise for managers, payment of seniority bonus, management fee and a non-recurring bonus granted to all managers. The agreement further stipulates that the Manager Constitution shall be effective through September 19, 2011, and while it is in effect, no permanent manager with the Bank shall be terminated for economic reasons (as defined in the Manager Constitution), except for individual termination (for cause and/or incompatibility) not to exceed 8 managers for incompatibility, or termination due to regulatory changes unknown to the parties as of the date of signing the agreement. Upon expiration of the labor constitution, the commitment for non-termination for economic reasons shall expire, as described above.

D. On August 19, 2008, a special collective bargaining agreement was signed with the Manager Council whereby managers may choose to receive, in 2009-2014, a seniority bonus under the new format, which is updated based on success benchmarks and on the Bank's return on equity. Furthermore, this agreement contains an extension of validity of the Manager Employment Constitution through December 31, 2015, as well as a commitment by the

Council not to engage in labor unrest through this date, except in case of Bank operations being merged with another bank during the term of this agreement.

E. On March 5, 2009, a wage agreement was concluded with the Manager Council for the period 2008-2010. This agreement primarily consists of gradual expansion through July 2014 of the base used for making deposits to study funds, as well as payment of certain annual amounts by monthly installments.

F. On February 29, 2012, a wage agreement was concluded with the Manager Council for the period 2011-2012.

G. On June 16, 2014, a wage agreement was concluded with the Manager Council for the period 2013-2017. The agreement primarily includes a gradual increase in management fees by 2% per annum for 2014-2017, linkage of vacation pay rates to the CPI, contribution to study fund with respect to vacation pay, extension of the agreements on other matters and ensuring labor unrest is avoided through December 31, 2017.

Pension and benefit arrangements

A. Managers who were employees of Mizrahi Bank on the eve of the merger with Bank Tefahot are covered by the Bank's obligations for the payment of pension and severance pay, by current contributions in the employees' names to pension, provident and severance pay funds, and all the aforesaid in the previous paragraph regarding the Employee Council applies to them.

B. Managers who were employees of Bank Tefahot on the eve of the Tefahot merger are covered by the Bank's obligation for the payment of pension and severance pay, by regular deposits on behalf of employees to pension funds, provident funds and severance pay funds, and non-recurring deposits. These deposits release the Bank from its obligations for the payment of severance and pension for the period as from January 1, 2006, for whoever was a manager on that date. With respect to its liability through January 1, 2006, the Bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of the Technology Division are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years, the key points of which are provided below:

A. Salary updates for Technology Division employees are determined according to a linkage model for salary increments and for changes in the provisions given to employees of the Bank (the parent company). If in a certain year, a salary agreement is not signed by the Bank by the end of March in the subsequent year, Technology Division employees would be entitled to an advance that will be calculated according to the agreed mechanism, which would be reviewed by independent experts. The balance of the salary increase would also be calculated by an agreed mechanism soon after signing the Bank's salary agreement. It was also stipulated that if the terms of the salary agreement include a new salary increment and/or salary element that was not included in the linkage model, negotiations will be conducted with representatives of Division employees regarding the increments to be given to Technology Division employees.

B. The labor constitution prescribes the maximum quota for contracted employees, pursuant to the undertaking between the Technology Division and outside vendors, which make workers available to the Technology Division , and under the professional management of the Technology Division. In this context, it should be noted that disputes have arisen in the past between Technology Division management and the Employee Council regarding the quota of contracted employees and the outsourcing of projects. On December 29, 2003, a labor dispute was announced at the Technology Division. On March 31, 2004, the parties signed an agreement to end the labor dispute, in which certain conditions were stipulated with regard to the Technology Division's undertakings with outside vendors and in outsourcing contracts. However, the parties agreed that this agreement does not exhaust the dispute regarding outsourcing and that each party reserves for itself all the rights and claims in this matter.

C. Similar to employees of the Bank, the obligations of the Technology Division to pay pension and severance payments to its employees, except for a limited group of employees for which a provision was made, are covered by regular deposits on behalf of the employees to pension funds, provident funds and severance pay funds, in accordance to the provisions of the collective agreement applicable to these employees.

D. On January 11, 2007, a collective agreement was signed between the management of the Technology Division and the Employee Council which contains a voluntary retirement program. The plan provides for retirement in an early retirement track, for employees, who on their retirement date will be at least 55 years old and are insured in managers' insurance or an aggregating pension fund, or an increased severance pay track for other employees. The final decision on acceptance or rejection of the request for early retirement rests with the General Manager of the Technology Division. This agreement was extended by a further 12 months on February 19, 2008.

E. On March 8, 2007, the Employee Association, Manager Council, Technology Division Employee Council and the Bank signed a special collective bargaining agreement which sets terms for integrating the computer employees of Tefahot (except for a small group of employees) into the Technology Division. The agreement prescribes the format in which the terms of the computer employees of the former Tefahot will be converted and adapted to the terms prevailing in the Technology Division. Pursuant to this agreement, the collective bargaining agreements applicable to Technology Division employees, including the Labor Constitution infrastructure at the Technology Division from 1989, as well as any new collective bargaining agreement to be signed, will apply to the Tefahot employees who have been integrated.

F. On October 21, 2010, a labor dispute was declared between the MAOF trade union and the Technology Division. The main causes of this dispute are the demand by employees to sign wage agreements for 2005-2009, their demand to update the wage linkage mechanism, as well as restructuring by management which, the employees claim, infringes on their rights.

   Based on guidance from the MAOF trade union, since no agreement has been signed by November 7, 2010, Technology Division employees may go on strike effective immediately.

G. On January 2, 2012, the Bank informed the employee representation that Technology Division employees would not be relocated to the Technology-Logistics Center in Lod, and that this facility would be rapidly set up as the Bank's primary computer site, featuring standards appropriate for emergencies. This notification was delivered to employee representatives and to the MAOF trade union.

H. On November 27, 2013, a special collective bargaining agreement was signed by management of the Mizrahi Tefahot Technology Division Ltd., the Division Employee Council and the Labor Union, in which the parties agreed on a process to resolve their disagreement with regard to contractors, which was the cause of one of the labor disputes declared between the parties.

I. In conjunction with the agreement dated November 27, 2013, the parties also agreed on the process for relocating the Bank's data center from its current location to the Technology-Logistics Center in Lod and relocation of the DRP facility from its current location to a secure facility in Ramat Gan.

J. On April 30, 2014, a collective bargaining agreement was signed by management of Mizrahi-Tefahot Technology Division Ltd. and the employee representation, in which the parties agreed on employee salary increases and an agreement in principle with regard to employment of students and termination of labor disputes, to be incorporated in a collective bargaining agreement.

K. On June 2, 2014, a collective bargaining agreement was signed by management of Mizrahi Tefahot Technology Division Ltd., the company's employee representation and the labor union, with the following highlights:

- Termination of the labor dispute and strike called by the labor union on October 21, 2010 and elimination of most of the sanctions.
- Pay increases were agreed (differences between the payable and actual pay raises) with respect to 2005-2007, including agreement on payment of any differences.
- The parties agreed that pay increases with respect to 2008-2012 have been completed.
- The parties agreed on employment of students by special contract, which is outside the scope of the collective bargaining agreement.
- The parties agreed the terms of a voluntary retirement program to be launched by management decision.

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

- Termination of the labor dispute and strike called by the labor union on January 26, 2012 and elimination of all sanctions. This concludes all labor disputes at the Bank.
- Agreement on contractor work.
- Agreement on a trial period in the tenure track.

Individual employment contracts

The labor agreements signed in the Bank in the years 1995, 1998, 2003 and 2006, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 16 to the financial statements for additional information.

Employees of Bank Yahav

Overview – Labor Agreements

The employment terms and conditions of Yahav employees are specified in collective bargaining agreements and in individual employment contracts. A special collective bargaining agreement was signed in September 2013, governing the employees' labor conditions and pay for the period 2013-2016.

Severance pay and pension

Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident funds in the name of the employees. 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 the aforementioned provident funds.

With regard to a few 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.

As for senior executives, 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. In addition, Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the Bank. An appropriate provision with respect to these obligations has been made in the financial statements.

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. The financial statements include an appropriate provision based on an actuarial estimate.

Redemption of unutilized sick leave

Retiring employees are entitled, under the labor agreement, to partial cashing of unused sick days. Bank Yahav has included a proper provision in its accounts, based on an actuarial assessment.

Jubilee bonus

Yahav employees are eligible to receive a Jubilee bonus upon completion of 25 years of service, and bank retirees are eligible to receive holiday gifts. Bank Yahav has made a provision for the Jubilee bonus and for holiday gifts to retirees based on an actuarial assessment.

Bank remuneration policies

Revised officer remuneration policy

On November 19, 2013, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 301A concerning remuneration policies at banking corporations. As this directive became effective and further to discussions between the Bank and the Supervisor of Banks, the Bank has acted to revise the remuneration policy for officers, approved by the General Meeting of Bank shareholders on August 27, 2013 (hereinafter: "the original remuneration policy").

Accordingly, on April 29, 2014, the Remuneration Committee resolved to recommend that the Bank's Board of Directors should approve the revision of the original remuneration policy. On May 4, 2014, the Bank's Board of Directors approved the aforementioned policy and on June 10, 2014, the General Meeting of Bank shareholders approved the revised officer remuneration policy.

The revised remuneration policy incorporates provisions of the Corporate Act and directives by the Supervisor of Banks concerning remuneration, with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, *inter alia*, to the Bank's strategic plan and to current employment terms of officers at the Bank.

The remuneration of officers, other than Board members, will include two major components: A monthly salary (as well as related benefits) and variable, performance-based remuneration which will include a monetary bonus and long-term share-based remuneration. The remuneration package may also include remuneration related to retirement. The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

As stipulated by Bank of Israel directives with regard to remuneration, the maximum variable remuneration shall not exceed 100% of the fixed remuneration. The Bank's Board of Directors also specified that the maximum variable remuneration for officers who are gatekeepers would not exceed 77% of the fixed remuneration.

The reasons cited by the Remuneration Committee and by the Bank's Board of Directors for approval of the revised remuneration policy were:

- The revised remuneration policy is in conformity with Regulation 301A.
- The revised remuneration policy is in conformity with statutory provisions and offers Bank management tools for recruiting and preserving officers with skills appropriate for the Bank, since officer remuneration terms are a proper incentive for incumbents and future candidates for senior positions with the Bank.
- When setting the revised remuneration policy, the Remuneration Committee and the Bank's Board of Directors reviewed the current situation at the Bank as well as officer remuneration at other major banks.
- The remuneration composition was specified by position, with a distinction made between officers who are gatekeepers and other officers.

- The variable components in the revised remuneration policy, including how they are determined and their ratio to the fixed component, were reviewed with attention to the officer's contribution to achievement of Bank objectives, considering the Bank's strategic plan and maximizing Bank profit, from a long-term view and based on the officer's role.
- The revised remuneration policy provides Bank management with reasonable leeway in exercising judgment when setting officers' remuneration terms. The ratio of officers' remuneration to that of other Bank employees is reasonable and should not affect labor relations at the Bank due, *inter alia*, to the Bank structure where officers are few in proportion to all Bank employees and due to the differences in roles and responsibilities of officers compared to other Bank employees. It was further noted that these ratios reflect common remuneration gaps in the Israeli banking system, given that the Bank enjoys correct labor relations.
- The revised remuneration policy is in line with the Bank's results in recent years.
- For more information about the revised remuneration policies, its guidelines and scope – see Appendix A to a Immediate Report dated May 4, 2014, reference 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Remuneration policy for all Bank employees other than officers

On June 19, 2014, the Bank’s Board of Directors, based on recommendations by the Remuneration Committee, approved a remuneration policy for all Bank employees other than officers. The remuneration policy is based on Proper Conduct of Banking Business Regulation 301A with regard to remuneration policy at banking corporations (hereinafter: "the remuneration policy").

The remuneration policy discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2014-2016.

The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

For details of approval of the remuneration plan for the Bank President & CEO, see chapter "Details of senior officer remuneration" below and Notes 16 and 16.A to the financial statements.

For details of a stock option plan for officers and key employees at the Bank and to other managers of the Bank and subsidiaries thereof, see Note 16.A to the financial statements.

For details of implementation of the disclosure requirements with regard to remuneration, as stipulated by Section E. of the interim directive - Implementation of disclosure requirements pursuant to Basel Pillar 3, see chapter on Risk Management below.

Bank organizational structure

The Bank's organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors), as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat).

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector - which is responsible for management of the Bank's financial assets and liabilities - and the capital market trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services. The division is also in charge of international operations of the Group and of its private banking operations. This is achieved via the private banking and international operations sector, which is responsible for these operations via the private banking units in Israel and via affiliates and subsidiaries overseas.

Information Technology Division - in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Regulation 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Planning, Operations and Customer Asset Division – in 2013, the Bank merged the Customer Assets and Consultancy Division with the Planning and Operations Division. The merged division includes the Process Engineering Division, responsible, inter alia, for back-office banking operations and the Planning & Economics Division, responsible for supervision and control of subsidiaries. The division is also responsible for the Bank's insurance business (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse. The division also includes the departments which provide pension consulting and financial consulting services offered to clients. The division is also responsible for subsidiaries operating in the capital market, including: Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd., Mizrahi-Tefahot Trust Company Ltd. and the provident fund sector.

Risk Control Division – this division includes the various risk control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Resources and Administration Division – this division includes management of human resources, training, logistics, administration and improved efficiency (including properties and construction) as well as security (including the Cash Center and courier service).

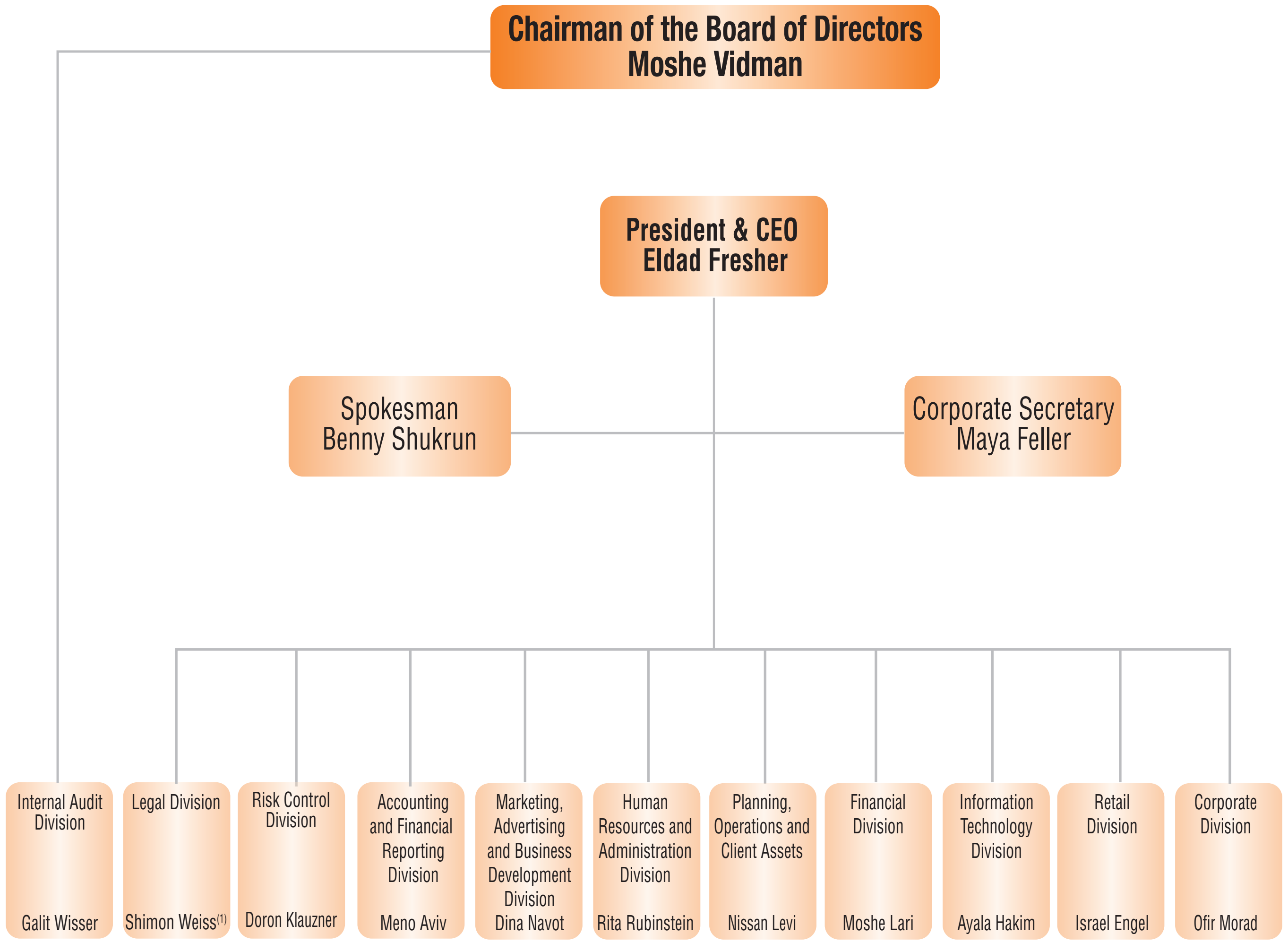
Marketing, Advertising and Business Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Accounting & Financial Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, mortgage ledger, accounting, treasury and payroll department. The division is also in charge of classification of and provisions for troubled debt.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Organizational Chart of the Bank



(1) On December 31, 2014, Dr. Shimon Weiss concluded his term in office as Chief Legal Counsel to the Bank and as Manager, Legal Division - upon his retirement.
As from January 1, 2015, Attorney Racheli Friedman serves as Chief Legal Counsel to the Bank and as Manager, Legal Division.

Tax Laws Applicable to the Bank Group

The Bank is classified as a "financial institution" under the VAT Act, 1975 and is therefore liable for payment of taxes on salary and profit, as well as for corporate tax as per the Income Tax Ordinance (New Version), 1961.

Corporate tax and profit tax

The overall tax rate for corporate tax and profit tax applicable to Bank revenues in 2014 was 37.71%. The payroll tax rate was 18% of payroll expenses paid by the Bank. Payroll tax is considered an expense for calculation of the corporate tax.

Tax assessments

The Bank has finalized tax assessments, or tax assessments deemed to be final, through the 2010 tax year. Bank Yahav has finalized tax assessments through 2010. In December 2014, the Tax Assessor issued tax assessments with regard to payroll tax liabilities with respect to 2009-2010. These tax assessments amount to NIS 10 million, including linkage and interest. For 2009, a mandated tax assessment was issued. The Bank disputes these tax assessments and has filed appeals and reservations of these tax assessments.

Arrangements and approvals from tax authorities

The Bank has arrangements with the tax authorities, as follows:

- Overseas Affiliates Arrangement – According to this arrangement, certain wholly-owned affiliates of the Bank that operate overseas pay taxes in Israel on their income, based on the financial statements of these companies. Taxes paid overseas may be set off from the tax liability in Israel, and dividend distributions to the Bank are exempt from tax in Israel.
- On December 31, 2007, the Supervisor of Banks published a circular regarding “Measurement and Disclosure of Impaired Debt, Credit Risk and Provision for Credit Loss”, effective as from January 1, 2011.
  According to an agreement signed by the banks and the Taxes Authority in 2012, provisions for credit losses for individually-handled debt would be allowed as a tax deductible expense in the year in which they were recorded. In any tax year in which the provision balance is decreased, the Bank would be taxed at the tax rate applicable on the date of recording the provision, plus interest and linkage differences. As for accounting write-offs with respect to debt treated on a group basis, one half of the net write-offs in each tax year would be allowed as a deduction in the year following the write-off, and the other half would be allowed in the following year. No deductible expense would be allowed with respect to provisions recorded on a group basis. Provisions with respect to housing loans are excluded from this agreement.

Certain differences deducted from the Bank's shareholders equity as of December 31, 2010 due to initial application of the new directive would be allowed as a tax deduction in five equal annual installments starting in the 2011 tax year.

The aforementioned principles would apply to debt provided for during 5 years from the effective start date of the new directive. After that date, mechanisms were set for extension of the agreement with the Tax Authority.

Overseas operations

The Bank has branches in Los Angeles, London and the Cayman Islands. Profit or loss of these branches is included in the profit or loss reported by the Bank to income tax authorities in Israel.

The State of Israel has signed treaties for avoidance of double taxation with the U.S. and England. Pursuant to the provisions of the treaty with these countries, taxes paid in these countries for the activities of the branches there may be offset against the Bank's tax liability in Israel. The limit for offsetting foreign taxes in Israel is the amount of the tax liability in Israel deriving from the profits of these branches.

The branch in the Cayman Islands is not subject to tax in its country of incorporation. For details of a branch closing, see chapter on "International operations" above.

The Bank has a subsidiary in Holland operating as a holding company, which owns a Swiss company that operates a bank in Switzerland. These companies are covered by the Overseas Affiliates Arrangement as mentioned above.

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 cases of tax avoidance by US persons by using bank accounts outside the USA.
- Increase tax revenues paid by US persons to the USA, and increase transparency and reporting of assets and balances of clients identified as American to the IRS.

In January 2013, the IRS published rules for implementation of the Act, and the Bank has prepared to implement them, as part of continuing preparations for implementation of the Act.
The Bank avoids providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA.

On April 6, 2014, the Bank received the Supervisor of Banks' letter concerning preparation for application of FATCA provisions; these require banking corporations, *inter alia*, to set policy and procedures as to the manner of application, to be approved by the Board of Directors; to appoint a responsible person and to establish a dedicated team to coordinate application of these provisions, reporting directly to management and providing updates to management and to the Board of Directors on the progress made, at a frequency to be determined.
The steps to be taken with regard to clients of the banking corporation in the course of such preparations would be taken with due consideration to the bank's obligations to its clients and after diligent review of the circumstances.
However, the letter 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 prescribed by legislation, based on the signed agreement and in conformity with directives of the Supervisor of Banks and of the Ministry of Finance.

OECD directive concerning information exchange about financial accounts

In 2014, the State of Israel announced that it would adopt the directive concerning automated information exchange about financial accounts for tax purposes (the OECD Common Reporting Standard) by end of 2018. The directive would be implemented by an agreement between the relevant authorities in the countries which apply the directive (such as the inter-state agreement between Israel and the US authorities, in conformity with the directive). According to the directive, financial institutions would be required to conduct an identification procedure for clients who are residents of foreign countries - and provide information about their accounts to the tax authority. The appropriate legislation changes to Israeli law for application of this procedure have yet to be made. The Bank is studying the directives and is preparing to apply the directives.

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, Major Swap Participants (MSP) etc.)

The rules stipulated by 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 (hereinafter - "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 there to.

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 prescribed by 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 Rules (Customer Service) (Commissions) (Amendment), 2013

On November 28, 2013, the amendment to the rules was published. Banking corporations maintain - by law - two price lists: a price list for individuals and small businesses and a price list for large businesses. The amendment creates a distinction between large businesses and small ones - even for individuals who manage a business, unlike the previous situation where this distinction only applied to corporations. In view of this amendment, individuals who manage a business may also be charged for banking services rendered to them according to the price list for large businesses.

The amendment also added to the price list for individuals and small businesses commission bundles, which clients may choose to sign up for. A commission bundle is a bundle of basic banking services at a fixed price, which should be lower than the sum total of all commissions - had they been individually charged for each service in the bundle. Once a client has signed up for a bundle (an action which they may reverse at any time), they pay the fee for the bundle monthly - even if they have not used the bundled services in full.

The amendment became effective on April 1, 2014. Application of this revision has no material impact on the Bank's financial statements.

Consequently, on March 26, 2014, the Banking Ordinance (Customer Service) (Supervision of Basic Bundle Service), 2014 was made public. The Ordinance is effective as from April 1, 2014, along with Banking Rules (Customer Service) (Commissions) (Amendment), 2013 with regard to commission bundles which banks are required to offer to clients (individuals and small businesses) from that date. According to the Ordinance, the maximum commission charged for the basic bundle (1 transaction by teller and 10 transactions by direct channel) may not exceed NIS 10 per month. Application of this ordinance has no material impact on the Bank's financial statements.

Sale Act (Apartments) (Securing Investments of Home Buyers) (Amendment no. 7), 2013

On December 2, 2013, the amendment to this Act was made public, imposing an obligation on the seller of an apartment, as defined in the Act, to ask the financing entity holding the lien on the land, to issue a contingent exception letter to the buyer, which includes the conditions which, when fulfilled, the lien in favor of the financing entity would not be realized against the apartment sold, as well as the obligation of the banking corporation to issue such letter.

The seller is required to apply to the bank for such a letter to be issued, within 30 days from the date of the first payment by the buyer using a payment voucher (for a project with financial assistance), or within 30 days from the date of first issue of a guarantee pursuant to the Sale Act to the buyer (for a project with no financial assistance - where only guarantees pursuant to the Sale Act are issued).

The banking corporation is required to issue the contingent exception letter, worded as described in an addendum to the amendment, within 30 days from the seller's request, whether it is a bank providing financial assistance to the project or whether it merely issues guarantees to buyers pursuant to the Sale Act. The amendment became effective on January 1, 2014.

The Bank has completed preparations and made the required adjustments to Bank procedures and legal documents. Application of this revision has no material impact on the Bank's financial statements.

Capital Market Relief and Promotion Act (Legislation Amendments), 2014

On January 20, 2014, the Knesset enacted the Act designed to reduce the massive regulation of the capital market. The Act combines various reliefs from different Acts which would reduce the regulatory burden in various areas. These reliefs include: Optional extension of validity of a shelf prospectus from 24 to 36 months, subject to filing an application with ISA and to compliance with certain conditions; relief with regard to double-listed corporations with regard to transition from Israeli reporting to foreign reporting; change in calculation of the statute of limitations with regard to a breach which is subject to punishment by administrative proceeding; setting a maximum for accumulated fines for an on-going administrative violation; option to allow for marketing of a deposit and bond fund without requiring an investment

advisor license, thereby making such funds more accessible for the public; reduced frequency of updating of customer needs by investment advisors; option allowing analysts, under certain conditions, to be compensated by companies which they analyze.
Further to the prospectus reliefs, on February 3, 2014 the following legislation was enacted: amendments to Securities Regulations (Shelf Offering of Securities), 2005; Securities Regulations (Period for Submitting Bids for Securities Offered by Prospectus), 2005; and Securities Regulations (Conditions for Offering Pursuant to a Shelf Prospectus), 2005.
Application of these amendments has no material impact on the Bank's financial statements.

AML Ordinance (Mandatory identification, reporting and records maintenance by banking corporations to avoid money laundering and terrorism financing) (Amendment), 2013

The AML Ordinance (Mandatory identification, reporting and records maintenance by banking corporations to avoid money laundering and terrorism financing) (Amendment), 2013 was made public on February 2, 2014. The Ordinance is effective as from August 2, 2014 - except for specific sections marked "effective immediately" (reliefs for banking corporations which issue credit cards). Some of the obligations included in this amendment to the Ordinance are not new ones, but rather constitute "escalation" of regulatory provisions already applied by the Bank (their inclusion in the Ordinance would allow monetary sanctions to be imposed on banks for any breach thereof).
The following are major new obligations imposed - which the Bank has applied and deployed:
Obligation to conduct a brief "Getting to know the client" process with ad-hoc clients (who conduct a transaction not posted to any account), based on the degree of risk of money laundering and terrorism financing; obligation to maintain a computer-based registry of ad-hoc clients, to be kept for 7 years after the transaction date; obligation to review the reasonability of beneficiary and controlling shareholder statements, considering information available to the bank; and an obligation to verify the identity of ultimate beneficiaries and controlling shareholders (e.g. through a query to an appropriate registry or through "use of relevant information or data provided by a reliable source to the bank's satisfaction"); extension of the obligation to maintain documents (the current requirement is to maintain major documents used for "Getting to know the client" for 7 years after the account has been closed); extension of detailed information to be provided for international SWIFT wire transfers; prohibition of retaining a scanned copy of a hand-written or signed client instruction - but rather in original format only.
The Bank applies these amendments s from their effective start date. Application of these amendments has no material impact on the Bank's financial statements.

Prohibition on Money Laundering Act, 2000

On April 10, 2014, the violation of "Maintaining economic activity with assisting foreign entity" was added to the list of original violations on the Prohibition on Money Laundering Act (section 18(e) of Addendum I).
The Bank is acting to identify any such suspect activity and to report it as required.

Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2014

On March 6, 2014, the Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2014 was made public; it includes an update, due to inflation, of monetary sanctions specified in the Sale Act (Apartments) (Securing Investments of Home Buyers), 1973.
Note that the Act imposes, *inter alia*, obligations on a banking corporation providing financial assistance - as defined in the Act - and stipulates monetary sanctions which may be imposed for breach thereof.
Application of this update has no impact on the Bank's financial statements.

The Sales Act (Apartments) (Amendment no. 7), 2014

On March 10, 2014, the Amendment to the Act was made public; it is designed to limit the amount of legal expenses which a seller, as defined in the Act, may charge to apartment buyers and to specify how these are to be paid. It is further stipulates that such legal expenses would be paid by the buyer directly to the attorney in exchange for an invoice. The Amendment would become effective subject to regulations to be enacted by the Minister of Construction and Housing.
Application of this amendment has no impact on the Bank's financial statements.

Countering Iran's Nuclear Development Program Act, 2012

On April 10, 2014, the Countering Iran's Nuclear Development Program Act, 2012 ("the Act") became effective. The Act stipulates prohibitions in conjunction with international economic sanctions imposed on Iran. The Act prohibits any economic activity with any party which sells technology, knowledge or products to Iran and which aids development of its nuclear and missile programs. The Act also prohibits investments in any foreign entity deemed to have a business relationship with Iran. The Act uses the enforcement mechanism of the Prohibition on Money Laundering Act and further requires independent reporting of clients suspected of being in violation of the newly stipulated prohibitions. To this end, the Bank is required to put in place an internal enforcement regime to avoid breaches of the Act, with responsibility assigned to officers for verifying compliance on this matter.
The Bank applies the provisions of the Act.

Notice with regard to denomination, form, content and other details of banknotes

On July 14, 2014, the Governor of the Bank of Israel announced, in conformity with her power pursuant to the Bank of Israel Act and as approved by the Executive Board and by the Government, that it has determined the denomination, composition, weight, format and other details of banknotes with denominations of NIS 50 and NIS 200.
The new NIS 50 banknotes was put into circulation in September 2014. The Bank operates in conformity with the Bank of Israel directives on this issue.

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 (hereinafter: "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 the 2nd anniversary thereof - 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 apply provisions of the Ordinance. Application of the Ordinance is not expected to impact 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), 2014

On October 7, 2014, the amendment to the Rules was published, concerning these three issues:

- Expanded mandatory notification – Any notification which previously, the Bank had to post on a board at the branch - should now also be posted on the Bank website.
- Account opening – The Bank must provide clients, when opening a business account, with a separate document explaining the term "small business" with regard to the service price list.
- Tracks – A client who wishes to join a commission track would receive from the Bank written information about commissions payable for services included in the track, which was charged to the client in the quarter prior to filing the application.

The Bank applies the amendment to the Rules. Application of this revision has no material 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 the 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.

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

On January 29, 2015, the amendment to the Commission Rules was published. It will become effective gradually on four different dates.

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

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

Proposed legislation

From time to time, proposals for legislative amendments are brought before the Knesset on various matters, some of which could have an impact on the businesses of banking corporations, including the Bank. However, as of the date of the financial statements, these bills are in different stages of legislation, they may be modified and there is no certainty as to when they will be completed or if they will eventually become provisions of binding legislation.

Supervisor of Banks

Circulars and Public Reporting Regulations

Report on corporate accountability

On October 3, 2011, the Supervisor of Banks issued a circular re Report on Corporate Accountability. According to this circular, banking corporations should make public a report for a period of up to two years about their corporate accountability, as stated in the directive, within seven months from the end of the reported period. On July 29, 2014, the Bank issued its Corporate Accountability Report for 2012-2013, as required by Supervisor of Banks directives. The Bank is preparing to issue its Corporate Accountability Report for 2014-2015 in July 2016. This report is expected to be presented in compliance with the GRI 4 standard.

The Bank is reviewing the issues to be reported, identifying material issues for external stake holders and for the Bank.

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

www.mizrahi-tefahot.co.il/en >> Corporate Responsibility

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.

This directive would become effective gradually, such that:

The 2014 financial statements would be issued by March 10, 2015 and the 2015 financial statements and thereinafter would be issued up to 2 months after the balance sheet date.

Quarterly financial statements – in 2015 shall be published no later than 50 days after the balance sheet date, and as from 2016 - no later than 45 days after the balance sheet date.

The Bank applies the schedules as specified for its issued financial statements and is preparing to issue its annual financial statements for 2015 and 2016 by the specified schedule.

Allowances for the public with accounts located near the front line

Following deterioration of the military confrontation between Israel and terror organizations in Gaza, the Supervisor of Banks issued in July 2014 a range of allowances for the public with accounts located near the front line, including: Instruction to banks, for towns where a special state of emergency has been declared, not to restrict any account or account holder for any checks declined; temporary rescinding of limits based on the Supervisor of Banks' directives with regard to extending credit exceeding the authorized credit limit; easing the process for clients to join the service for accepting instructions by telephone; instruction to banks to increase staffing of call centers as required, application of some concessions listed in Proper Conduct of Banking Business regulation 355 "Business Continuity Management".

Furthermore, due to uncertainty with regard to likelihood of collection in the market due to the military situation, the Bank of Israel directed that with regard to preparation of financial statements for the second and third quarters of 2014, banking corporations are not required to apply accounting write-offs to debt of borrowers in Israel, which is subject to accounting write-off requirements pursuant to the Public Reporting Regulations. This is unless the banking corporation is aware of reasons which require an accounting write-off, other than the state of arrears of the debt.

Furthermore, banking corporations are required to assess the impact of the military situation on the likelihood of debt collection and to increase, accordingly, the provision for credit losses calculated on group basis.

On September 3, 2014, in view of conclusion of military operations and the end of the period of the special state of emergency, the Bank of Israel issued guidelines for return to normal operation.

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

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. The Bank has joined this campaign and is properly implementing it. For further details see chapter "Household segment" above as well as Note 1.

Proper Conduct of Banking Business Regulations

Proper Conduct of Banking Business Regulation 310 concerning "Risk Management"

On December 23, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 310 concerning risk management. The regulation is primarily based on Basel guidelines for risk management, as reflected in recommendations made by the Basel Committee. The regulation includes a corporate-wide risk management concept, listing principles for risk management. The regulation also clarifies the processes required of the Board of Directors in order to duly discharge its duties pursuant to Proper Conduct of Banking Business Regulation 301, including a requirement to appoint a Risk Management Committee of the Board of Directors. According to the regulation, senior management is responsible for regular risk management, and is required to create a Risk Management function, and to appoint a Chief Risk Officer to head this function. The regulation lists the responsibilities and position of the Risk Management function. The effective start date of this regulation is January 1, 2014. 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 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. The Bank is preparing to implement this regulation.

Proper Conduct of Banking Business Regulation 350 concerning "Management of operating risk"

On December 23, 2012, the Supervisor of Banks issued an update to Regulation 350 concerning management of operating risk, based on Basel Committee guidelines dated June 2011. This Regulation is an update to the previous Regulation 350 (dated February 14, 2012), with regard to application of Regulation 310. This regulation stipulates 10 guiding principles for management of operating risk, with reference to the framework for management of operating risk. The guiding principles stipulated in the regulation primarily relate to issues of corporate governance and to the operating risk management environment. The effective start date of this regulation is January 1, 2014. The Bank is applying this directive. Application of this regulation has no material impact on the Bank's financial statements.

Amendments to Proper Conduct of Banking Business Regulation 301 concerning "Board of Directors"

On December 31, 2012, the Supervisor of Banks issued an amendment of Regulation 301 with regard to the Board of Directors, due to updates made to the Banking Act. The regulation was adapted to changes made upon publication of Proper Conduct of Banking Business Regulation 310 with regard to risk management, and Regulation 311 with regard to credit risk management, as described above, as well as Public Reporting Regulations with regard to making provisions for credit losses. The amendment is effective as from January 1, 2014.

On December 25, 2013, after legislative amendments and experience accumulated from application of the directive, the Supervisor of Banks issued a revision to the directive.

In this revision, the Supervisor's authority to modify or exempt a banking corporation or Board member from certain provisions of the directive was expanded, and the definition of "banking corporation" was expanded to also cover clearing service providers and banking corporations which are joint service corporations. Other sections of the directive were updated, concerning *inter alia* the appointment and termination of external Board members; the composition and operation of Board committees, including the Audit Committee; and the office of the Chairman of the Board of Directors.

On May 26, 2014, the Supervisor of Banks issued a further amendment of the directive, concerning the number of Board members at a banking corporation and amending the questionnaire for candidate officers at a banking corporation - in view of legislation of the Competition Enhancement and Concentration Reduction Act, 2013. The effective start date of the amendment to the directive is the date of its publication. The Bank is applying the amendment to this directive. Application of this revision has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 314 "Proper assessment of credit risk and proper measurement of debt"

On April 30, 2013, the Supervisor of Banks issued an update to Regulation 314 with regard to proper assessment of credit risk and proper measurement of debt. This is an update to Regulation 314 of the Basel Supervisory Committee directives (June 2006), which does not change provisions of the Public Reporting Regulations.

The revised directive adopts criteria for proper assessment of credit risk and proper measurement of debt, and lists the appropriate way to apply these. The criteria listed in the directive include responsibility of the Board of Directors and management to maintain risk assessment processes. The Bank is also required to maintain a system for reliable classification of debt, to set policies including a comprehensive process for validation of internal models and to adopt and document methodology for handling credit losses. The directive further stipulates that the Bank should maintain sufficient provisions to cover estimated credit losses in the loan portfolio, to use judgment of staff experienced with credit and to maintain a uniform risk assessment process so as to provide the Bank with uniform tools and data.

The effective start date of this regulation is January 1, 2014. 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 333 concerning "Management of interest risk"

On May 30, 2013, the Supervisor of Banks issued a directive on interest risk management, in conjunction with aligning the Proper Conduct of Banking Business Regulations with recommendations of the Basel Committee and with commonly applied standards in leading countries around the world. The directive covers all types of interest risk for all financial instruments at the Bank. The directive governs the existing requirements and expectations of the Supervisor of Banks of banking corporations, and is primarily based on principles published in 2004 by the Basel Committee for interest risk management and supervision.

Following this directive, amendments were made to Proper Conduct of Banking Business Regulation 339 "Market risk management".

The effective start date of this regulation is July 1, 2014. 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 313 "Restrictions on indebtedness of borrowers and groups of borrowers"

On May 30, 2013, the Supervisor of Banks issued an amendment to Regulation 313 "Restrictions on indebtedness of borrowers and groups of borrowers". Key changes in the amended regulation include: reduced weighting for guarantees pursuant to the Apartment Sale Act, when the apartment has been delivered to the buyer and reduced indebtedness amount with respect to add-on factor in OTC (Over The Counter – not traded on an active market) derivative transactions, which reflects the future potential exposure over the remaining term of the contract. This directive shall apply retroactively with regard to reducing the weighting factor for the Sale Act guarantee. The effective start date for the directive with regard to OTC derivatives transactions is January 1, 2014. Consequently to this regulation, amendments were made to Regulation 315 "Provision for doubtful debts". The Bank is applying the amendments to this directive. Application of these amendments has no material impact on the Bank's financial statements.

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 regulations 301A concerning "Remuneration policy at banking corporations"

On November 19, 2013, the Supervisor of Banks issued a directive concerning remuneration policies at banking corporations. This directive stipulates rules, designed to ensure that remuneration at banking corporations would be consistent with the risk management framework and with the long-term objectives of the banking corporation. In conformity with the directive, each banking corporation is required to set remuneration policy for all Bank employees, including key employees. The directive includes provisions and restrictions with regard to total remuneration at a banking corporation and refers to roles of the Remuneration Committee and of the Board of Directors. The directive also includes requirements applicable to groups of key employees, including setting a maximum ratio of variable remuneration to fixed remuneration, deferred payment of variable remuneration and award of shares and equity-based instruments which vest over several years. According to the directive, risk management, control and audit functions should be involved in development of the remuneration mechanism by reviewing the appropriateness of risk and compliance benchmarks included there in. The directive further stipulates that remuneration of staff engaged in risk management, control and audit would be independent of the business results of the units which they monitor.

According to the directive, the maximum variable remuneration may not exceed 100% of each employee's fixed remuneration. Under extraordinary conditions and subject to requirements prescribed in this directive, the maximum variable remuneration may be set at up to 200%.

The requirements of this directive apply to remuneration policy set from the directive effective start date and no later than June 30, 2014.

As stipulated in this directive, the General Meeting of Bank shareholders approved, on June 10, 2014, the revised officer remuneration policy at the Bank (after the remuneration policy had been approved, as stipulated by Amendment 20 to the Corporate Act, 1999 on August 27, 2013). For more information, see Immediate Report dated June 10, 2014, reference 2014-01-087588. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Moreover, on June 19, 2014 the Bank Board of Directors approved, as recommended by the Remuneration Committee, a remuneration policy for all Bank employees other than officers, including key employees at the Bank. For more information see chapter on Bank Remuneration Policies below. 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 355 "Management of business continuity"

On May 26, 2014, the Supervisor of Banks issued a circular which amends some definitions and specifies guidelines for minimum protection of critical sites for compliance with national reference scenarios. For more details, see chapter "Risk management". The Bank is preparing to implement this regulation.

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 directive limits the total indebtedness of related parties of the banking corporation and stipulates that transactions between the banking corporation and related parties would be based on business considerations and at market terms. The changes to the directive are effective as from January 1, 2015.

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 stipulated 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%, based on 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. The Bank is preparing to apply this regulation. Application of this regulation has no material impact on the Bank's financial statements.
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.

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 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 no. 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 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 preparing to implement these directives.

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 a group basis, shall create a custom function to handle enquiries from the public and shall appoint an ombudsman to head this function. The effective start date for this directive shall be no later than April 1, 2015. The Bank is 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. This 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 a client account. 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.

Other directives

In addition, banking corporations are required to file immediate reports with the Supervisor of Banks (inter alia, with regard to embezzlement, fraud and acquisition of means of control), as well as monthly reports (inter alia, reporting of financial data, of the banking corporation's board of directors, senior staff and accountant, ratio of capital to elements of risk, etc.).

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 the bank’s 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, the capital allocation with respect to credit risk is calculated using the standard approach.

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, the capital allocation with respect to operating risk is calculated using the standard approach.

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, 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 – Internal Capital Adequacy Assessment Process) 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 directives. 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 14 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 its 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 given its business objectives and strategic plan, both under normal and stress conditions.
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 bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved, on the same date, to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper 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

In total , the effect of implementation of the Basel III directives on January 1, 2014 amounts to a decrease of 0.28% in the Tier I capital ratio.

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.

The addition to risk assets as of January 1, 2014 amounted to NIS 1,230 million.

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.
The addition to risk assets and to Tier II capital as of January 1, 2014 amounted to NIS 1,277 million.

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.
The deduction from Tier II capital as of January 1, 2014 amounted to NIS 893 million.

Minority interest - The amount of minority interest recognized as capital has been limited, and excess capital of a subsidiary may not be recognized.
The deduction from Tier I capital as of January 1, 2014 amounted to NIS 31 million.

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.
The addition to risk assets as of January 1, 2014 amounted to NIS 965 million.

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 14 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 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 of equity to risk elements are expected to increase by 0.1%, based on 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.

Significant Agreements

A. Employment agreements signed with the Employee Council, the Manager and Authorized Signatory Association, the Yahav Employee Committee and the Technology Division Employee Committee. For details, see "Human Resources" chapter above.

B. Indemnification letters. See Note 19.D.4) through 19.D.9) to the financial statements for details.

C. Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL, for joint issue of Visa, MasterCard and Diners Club debit cards, including Bank-branded cards, to be distributed by the Bank to its clients. See Note 19.D.14 to the financial statements for further information.

D. Award of tender concerning budgeted loans for State employees to Bank Yahav. For details see chapter Major Investees above.

E. Contracting between Bank Yahav and an international company for creating a core banking system and obtaining outsourced services of such system. For details see chapter IT above.

Legal Proceedings

For material legal proceedings to which the Bank is party, see Notes 19.D. 10) and 19.D.11) to the financial statements.

DOJ inquiry in the USA

For details of a DOJ inquiry in the USA concerning Bank Group business with US clients, see Note 19.D.13 to the financial statements.

Determination by the Restrictive Trade Practices Authority

For information about an arrangement reached by the banks and the Anti-Trust Supervisor, see Note 19.D.12 to the financial statements.

Events outside the Normal Course of Bank Group Business

Terms of office and employment of the Bank President & CEO

On June 10, 2014, the General Meeting of Bank Shareholders approved the terms of office and employment of the Bank President & CEO, including approval of the remuneration plan for the Bank President & CEO which includes a monetary bonus and equity-based remuneration by way of option allotment plan in accordance with a private offering. See Notes 16 and 16.A to the financial statements for further information.

Stock option plan for officers and key employees at the Bank and to other managers of the Bank and subsidiaries of the Bank

On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers and to key Bank staff, as well as to other managers at the Bank and at its subsidiaries. See Note 16.A to the financial statements for details.

Payment of annual remuneration and meeting attendance remuneration to members of the Bank Board of Directors

On September 15, 2014, the Bank's Board of Directors resolved, after approval by the Remuneration Committee dates September 8, 2014, to approve payment of annual remuneration and meeting attendance remuneration to members of the Bank's Board of Directors. This resolution was passed in conformity with the Bank's officer remuneration policy, approved by the General Meeting of shareholders on June 10, 2014 and in conformity with Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

The resolution on remuneration payable to members of the Bank's Board of Directors refers to remuneration payable to external Board members, including expert external Board members, as well as remuneration payable to members of the Bank's Board of Directors other than external Board members, including Board members who are controlling shareholders of the Bank. For more information, see the Immediate Report dated September 15, 2014, reference 2014-01-157959. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Update to strategic plan

On December 23, 2014, the Bank Board of Directors resolved to update the Bank's strategic plan. This is due to changes in certain underlying assumptions of the original strategic plan. For details, see chapter "Business Strategy" below.

Business Strategy

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

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

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

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks, on that date, an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

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

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

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

- The effect of new regulatory directives issued after the original strategic plan was put in place and, in particular, the directive listed in section 14.A. of Proper Conduct of Banking Business Regulation no. 329 "Restrictions on extending housing loans" (hereinafter: "Regulation 329"[(1)]); according to this regulation, for calculating the capital requirement as set forth in Proper Conduct of Banking Business Regulation 201, banking corporations should increase their Tier I capital target by a percentage which reflects 1% of outstanding housing loans.
  Banking corporations should increase their equity target by fixed quarterly rates from January 1, 2015 to January 1, 2017.
  The Board of Directors has instructed Bank management to maintain proper safety margins so that the Bank's Tier I capital would not be lower than the aforementioned.
  Implementation of the aforementioned directives would increase the average shareholder equity base used for Bank operations and would result in a given profit generating a lower rate of return and, consequently, would reduce return on equity.
- Effect of macro-economic conditions
  - Economic growth in Israel in 2013 and in the first nine months of 2014, at an annualized 2.8% only; This is instead of the 3.5% rate assumption on which the original strategic plan was based.
  - The inflation rate is below the target for price stability and monetary interest rates are at historical lows - which negatively impacts Bank profitability, as opposed to assumptions underlying the original plan, whereby the inflation rate would remain within the range of Government-set targets and interest rates would be in line with such inflation.

Furthermore, the Bank’s Board of Directors approved the dividend distribution policy (hereinafter: "the revised dividend policy"), replacing the dividend distribution policy described in section 1.C. of the previous immediate report. The revised dividend policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to equity holders.

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

In 2017, the 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 that required by the Supervisor of Banks' directives and subject to maintaining proper safety margins.
The Bank has received approval by the Supervisor of Banks for the aforementioned outline of its dividend policy.
Note that dividend distribution is subject to statutory provisions and to restrictions specified by the Supervisor of Banks.

(1) Concurrently, Section 14 of Regulation 329 stipulates that banking corporations may reduce the risk weighting of leveraged housing loans bearing variable interest, as per Appendix II to Regulation 329, from 100% to 75%. The effective start date of this regulation is January 1, 2015.

Forecasts and Assessments with Regard to Bank Group Business

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

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

Growth engines for achieving the goals of the multi-annual strategic plans are:

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

The growth engines are aimed to cause the Bank's revenues to grow at an average annual rate of 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 4.5% (also not in linear fashion).

The Bank bases its multi-annual strategic plan, inter alia, on the following efforts: reinforcing the Bank position as an efficient, service-oriented bank which controls expenses, constantly improves as part of the organizational culture, a new performance-based remuneration plan, continued expansion of activity of the Back-office Operations Division, transferring additional logistics and operations activities from the branches to this Division, improved efficiency of the IT Department and continued activity by Bank Yahav on development of price-focused banking service, offering an appropriate service alternative.

The aforementioned plan (the update made) is a strategic plan which specifies Bank objectives for 2015-2017 and does not constitute a forecast or assessment with regard to achievement of these objectives; as such, by its nature, the strategic plan may not materialize. Moreover and without derogating from the generality of the aforesaid, in as much as this plan includes forward-looking information, as defined in the Securities Act, 1968, this information is based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank Board of Directors, including:

Absence of change in legislation and regulatory provisions which would impact the business environment; absence of geo-political developments and changes which would change or impact the business environment; stabilization of the global economy in coming years with per-capita GDP growing at between 0%-1%; growth of Israeli economy in coming years by 2.5%-3%; very moderate increase in interest and inflation rates in the Israeli economy, soh that the inflation rate would be at the bottom of the target range set by the Government and interest rates being gradually in line with such inflation. These assumptions may fail to materialize due to factors other than under the Bank's control, which may affect the aforementioned issues and cause the revised strategic plan, as described above, not to materialize.

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

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

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

This information constitutes forward-looking information as defined in the Securities Act, 1968. This information is based on assumptions, facts and data (hereinafter jointly: “assumptions”) brought before the Bank Board of Directors. These assumptions may fail to materialize, due to factors not entirely within the Bank’s control.

Marketing Operations

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

Business strategy and growth targets:

- Increase the Bank's share of the retail market, by expansion of the customer base, in particular growing the total number of customers in the Bank's household segment, while focusing on profitable target groups.
- Increase the Bank's share of small to medium business clients.
- Continue to lead the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers.
- Recruit new deposits and increase investment activities among existing clients.
- Maximize share of Bank clients while increasing total products per client.
- Expand to new operating segments - including the Arab segment.
- Use the LIVE platform to recruit new clients and improve service to current clients, while developing this concept and expanding the value proposition.

Marketing strategy

Marketing strategy is based on business strategy and on growth targets, including continued leadership position of Mizrahi Tefahot in service - by providing warm, personal service and offering unique, differentiated banking. In 2014, the Bank made a big leap in deploying the value of Joy in its unique service strategy, under the headline: "You deserve joy from your bank". The structured operating plan consists of 4 layers:

- **Joy in intra-organizational activities**

  Cross-organizational activities and workshops to deploy the organizational culture in support of the value Joy and to establish it among employees.

- **Development of new products and services to convey Joy**

  The Bank creates new products which benefit clients, both existing and new – such as: enrollment benefits, Hybrid Banking, "around the clock" - service available during the night as well; our "Joyful transition" team to assist in transitioning your account from another bank to Mizrahi Tefahot, services for mortgage clients, such as "mortgage on hold" and "mortgage to your doorstep" and non-banking benefits, such as loyalty club benefits from Mizrahi Tefahot ("The Card") and our "Let us meet in the community" activity.
- **A different appearance and retail experience – conveying Joy**

  A unique branch experience - change the branch appearance, both inside and out, into a joyful retail experience.
- **Marketing communications**

  Promote the unique Mizrahi Tefahot approach through advertising campaigns and a new media language.

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

Marketing products and tools

- Create a marketing strategy for the major Group brands. Brand marketing strategy is also impacted by deployment of the Joy value, which is reflected in all relevant activities, products and services.
  - "Mizrahi Tefahot" – differentiation based on the Bank's commitment to the insight whereby our clients "deserve joy from their bank".
  - "Tefahot" – the Mortgage Experts.
  - "The Professionals" – our investment world with the fruit metaphors.
  - "Executive Account" – a range of unique services and custom products.
  - "Priority Account" – personalized banking assistance.
  - "The Card" – the Mizrahi Tefahot loyalty club. "Group Power" – differentiated offers through the Group Power concept.
  - "Mizrahi Tefahot Live" – a unique banking service where each client has their own personal banker, regardless of physical branch.
  - "Let us meet" – the branch as a community meeting place, providing added value to the community.
- Focus on recruiting high-quality clients – launch the Priority segment, in addition to existing ones, with value propositions to high-quality clients, such as the Executive or Preferred Salary Man position.
- Develop the client experience for all Bank clients in all branches and sectors, and contact potential clients for recruitment, emphasizing the Joy value backed by appropriate products and services.
- Mortgages – continue to position Tefahot as mortgage experts, offering tools and services designed to improve the potential client experience. These include the "Tefahot GPS" service, providing updates on progress made on the mortgage application, support for field operations by leveraging relations with real estate companies, preparing for a campaign focused on the Orthodox segment, launching Hybrid Banking and creating sales-support tools. Furthermore, continue to foster synergy between Mizrahi-Tefahot and Tefahot while intensifying the link between the checking account and mortgage domains.
- Deposits – develop new products and continue to use the unique Mizrahi Tefahot "fruit language".
- Establish "The Card" - Mizrahi-Tefahot's credit card - as a unique loyalty club with added value reflected by attractive banking and non-banking value propositions under the Group Power concept.
- Nurture and preserve current customers in the strategic target audience, and intensify activities with them. Activity among existing customers is based mainly on retaining and intensifying activities of the share of retail and business clients, formulating unique offers with value and developing service policies that supports the positioning and needs of the customer and aids in improving customer satisfaction over time. These supporting tools include "The Card", Mizrahi Tefahot's loyalty club and the "Let us meet at Mizrahi Tefahot" project – where activities and lectures are delivered to the public at branches, free of charge.
- Strengthen and distinguish the Mizrahi-Tefahot brand and build an outstanding, differentiating competitive positioning intended to give the Bank a leading position in the current and future competitive arena, while reinforcing the concept “You deserve joy from your bank”.
- Branding and positioning, including smart media activities along with focused geography-based activities.

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

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

General

- Mizrahi Tefahot has long benefited from an image perception advantage over the competition in the public's mind, which perceives the Bank as one with a positive, joyful atmosphere, as the most different bank in the banking system, as a bank where the bankers joyfully provide service to clients and as a bank perceived to most pamper their clients of all the banking system.
- Mizrahi Tefahot is the only bank with a potential market share higher than the actual one - which means that a large number of potential clients wish to join the Mizrahi Tefahot family.
- Mizrahi Tefahot is the bank with the strongest growth momentum in the entire banking system.
- Mizrahi Tefahot has been a regular leader in client satisfaction for years.

Mortgages

- Tefahot is the bank with the largest market share of the Israeli mortgage market.
- Tefahot leads in client satisfaction in the mortgage sector - significantly higher than competitors.
- Tefahot is a market leader in all perception aspects: awareness, the bank to be contacted first and the number one bank in its field.
- Tefahot is the bank which most of the relevant audience applies to for a mortgage.

This information constitutes forward-looking information as defined in the Securities Act, 1968. This information is based on assumptions, facts and data (hereinafter jointly: “assumptions”) brought before the Bank Board of Directors. These assumptions may fail to materialize, due to factors not entirely within the Bank’s control.

Sources and Financing

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

Deposits

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

Total deposits from the public for the Group as of December 31, 2014 amounted to NIS 152.7 billion, compared to NIS 141.2 billion at end of 2013 - an increase of 8.1%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2014 by 6.4%; deposits in the CPI-linked segment decreased by 11.2%; and deposits denominated in or linked to foreign currency increased by 29.3% - for details see chapter "Development of balance sheet items" above.

As of December 31, 2014, the balance of the three largest depositor groups at the Bank Group amounted to NIS 15.5 billion.

Bank of Israel

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

Another source for raising short-term funds is the inter-bank money market.

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

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

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

Liquidity requirement - The directives of the Bank of Israel require banks to hold liquid balances for deposits from the public, at varying percentages, according to the period of the deposit. The required liquidity percentages are presently

6% on demand deposits and 3% on time deposits of one week to one year. In deposits for periods of one year or more, there is no liquidity requirement. In late October 2014, the Bank of Israel eliminated the mandatory liquidity with respect to currency swap transactions and NIS - foreign currency future transactions with foreign residents, including foreign banks - to which banks have been subject since late January 2011. See the chapter on risk management for information on the management of liquidity risk by the Bank.

Deposits with Bank of Israel to absorb excess liquidity - When there is excess liquidity in the system, the Bank of Israel absorbs it through tenders on deposits that it makes available to the banking system. The deposit tenders are for a short term of 1,7 or 30 days. The maximum interest rate for these tenders is the stated interest rate of the Bank of Israel. Moreover, there is a window for depositing daily deposits in the Bank of Israel, unlimited in amount, at interest that is 0.25% lower than the Bank of Israel interest rate. The deposit window was revised from 0.50% to 0.25% at the end of August 2014, after the Bank of Israel lowered its interest rate from 0.50% to 0.25%. In 2014, the banking system - including the Bank - had excess liquidity, and throughout the year, the Bank of Israel offered deposit tenders for terms of one day / week / month in order to absorb this excess.

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

Tools for enhancing system liquidity - For the purpose of injecting liquidity into the banking system, the Bank of Israel makes available short-term credit tenders for 1-7 days, in which the minimum interest is the Bank of Israel interest. Moreover, the Bank of Israel provides a daily credit window at interest that is 0.25% higher than the Bank of Israel interest. The credit window was revised from 0.50% to 0.25% at the end of August 2014, after the Bank of Israel lowered its interest rate from 0.50% to 0.25%. Receipt of credit from the Bank of Israel, whether through the credit tender or the credit window, is limited to the collateral amount that each bank has in the Bank of Israel. In 2014, the banking system and the Bank had excess liquidity - and the Bank of Israel did not conduct any credit tenders.

Real Time Gross Settlement (RTGS) system - the RTGS system allows clients to transfer in real time NIS-denominated amounts from an account at one bank to an account at another bank. Settlement is immediate and final.

Obligatory notes and debentures issued to the public

Obligatory notes and debentures

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

As of the balance sheet date, all obligatory notes (Series 27-38), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 15,581 million in total par value (as of December 31, 2013 - NIS 11,128 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).

In 2014, Tefahot Issuance issued debentures amounting to NIS 5,769 million par value for consideration amounting to NIS 5,809 million, pursuant to a shelf prospectus dated July 30, 2013.

On January 26, 2014, Tefahot Issuance issued debentures (Series 35 and Series 36), with total par value of NIS 1,650 million, for consideration of NIS 1,690 million.

On May 29, 2014, Tefahot Issuance issued NIS -denominated debentures (Series 37), with total par value of NIS 1,243 million, for consideration of NIS 1,243 million.

On September 10, 2014, Tefahot Issuance issued debentures (Series 38), with total par value of NIS 2,876 million, for consideration of NIS 2,876 million.

On January 29, 2015, after the balance sheet date, 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 these issuances were deposited at the Bank under terms similar to those of issuances.

Complex capital instruments

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated notes (Series A), that will be deemed Upper Tier II capital for maintaining a minimum capital ratio. On May 21, 2007 the Bank published a prospectus under which the complex capital instruments were listed for trading in early June 2007. Starting in June 2007 and through publication of these financial statements, the Bank issued and listed for trading additional complex capital instruments amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.

All of the Bank's complex capital instruments (Series A) as of December 31, 2014, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of December 31, 2014 was NIS 2.0 billion, similar to the end of 2013. See Note 14 to the financial statements for details.

Rating of Bank obligations

On December 25, 2014, Standard & Poor's Maalot (herenafter: "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 outlook.

Adjustable rate loans

A significant part of the credit loans issued by the Bank are at adjustable interest rates. In the non-linked shekel sector, the variable-interest loans are issued based on the changes in the prime interest rate. The prime interest rate is based on the Bank of Israel interest plus 1.5%, and if this ratio changes, the Bank is permitted to change the method for determining the variable interest accordingly. The prime interest rate could change every month, according to a decision by the Bank of Israel on a change in the monetary interest.

The Bank also provides NIS-denominated mortgages bearing variable interest varying at 2-year and 5-year intervals, with the interest rate update mechanism ("anchor") based on NIS-denominated Government debentures bearing fixed interest.

In the CPI-linked sector, most variable-interest loans are mortgages, with various frequencies for interest rate updates: 1 year, 2.5 years, 5 years, 7 years and 10 years. The interest rate update mechanism ("anchor") is based on CPI-linked Government debentures.

In the foreign currency (and/or foreign currency linked) segment, most of the loans are at adjustable rates, varying with changes in the LIBOR interest rates. The commonly used periods are 1-month LIBOR and 3-month LIBOR.

Basel II: 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 II recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.
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)	Report page
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter	
Capital structure	Key attributes of equity instruments	Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks	
	Details of capital components	Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks	
	Quantitative disclosure	Bank website (1)	
	Qualitative disclosure	Bank website (1)	
Capital adequacy	Qualitative and quantitative disclosure	Risk Management chapter	
	Capital adequacy ratios for the Group	Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks	
Credit risk	Qualitative disclosure	Risk Management chapter	
	Quantitative disclosure	Risk Management chapter	
	Credit risk exposure by economic sector	Addendum E - 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 F - Exposure to Foreign Countries	
	Information about troubled debt	Note 4 - Credit risk, loans to the public and provision for credit losses	
	Provision for credit losses by economic sector	Risk Management chapter, Addendum E - Credit Risk by Economic Sector,	
	Credit losses with respect to housing loans	Risk Management chapter	
Credit risk mitigation	Qualitative and quantitative disclosure	Risk Management chapter	
Counter-party credit risk	Qualitative and quantitative disclosure	Risk Management chapter	
Securitization	Qualitative and quantitative disclosure	Risk Management chapter	
Equity positions in bank portfolio	Qualitative and quantitative disclosure	Risk Management chapter	
	Accounting policies	Note 1 - Reporting Principles and Accounting Policies	
Market risk, liquidity risk, interest risk in bank portfolio	Qualitative and quantitative disclosure	Risk Management chapter	
Operating risk	Qualitative disclosure	Risk Management chapter	
Legal risk	Qualitative and quantitative disclosure	Risk Management chapter	
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter	
Remuneration	Qualitative and quantitative disclosure	Risk Management chapter	

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

Application scope

Provisions of Proper 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. 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 II rules, as stipulated 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 risk factors relevant for the mortgage portfolio, including during change to macro-economic conditions, on the portfolio quality.

The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of Banks and with limitations set by the Board of Directors, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. For this purpose, the Board of Directors has created a policy document (which is an appendix to the master policy document set 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 the reference in the chapter "Legislation and Supervision of Bank Group Operations".

For details of the risk adjusted capital ratio, see Note 14 to the financial statements.

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows:

	As of December 31, 2014		As of December 31, 2013	
Exposure group	Weighted risk asset balances	Capital requirement[(2)]	Weighted risk asset balances	Capital requirement[(1)]
Sovereign debt	806	101	521	47
Public sector entity debt	407	51	455	41
Banking corporation debt	1,239	155	1,390	125
Corporate debt	41,022	5,128	39,688	3,572
Debt secured by commercial real estate	2,256	282	2,209	199
Retail exposure to individuals	11,136	1,392	10,445	940
Loans to small businesses	4,444	556	3,754	338
Residential mortgages	49,738	6,217	43,889	3,950
Other assets	4,357	545	3,060	275
Total	[(3)]115,405	14,427	105,411	9,487

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel Pillar 3.
(2) The capital requirement was calculated at 12.5% of risk asset balances.
(3) Includes application of Basel III rules as from January 1, 2014. For information about the effect of application of new rules on weighted balances, see chapter " Legislation and Supervision of Bank Group Operations" below.

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

	As of December 31, 2014		As of December 31, 2013	
	Weighted risk asset balances	Capital requirement[(2)]	Weighted risk asset balances	Capital requirement[(3)]
Market risk	1,020	128	842	76
CVA risk with respect to derivatives[(1)]	886	111	-	-
Operating risk	7,383	923	7,154	644
Total	9,289	1,162	7,996	720

(1) Credit Value Adjustments - mark to market with respect to counter-party credit risk, in conformity with Basel III directives.
(2) The capital requirement was calculated at 12.5% of risk asset balances.
(3) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel Pillar 3.

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

	Ratio of capital to risk elements	
	As of December 31,	
	2014	2013
Ratio of Tier I capital to risk elements	9.12	[(1)]-
Ratio of Tier I capital to risk elements	9.12	9.01
Ratio of total capital to risk elements	13.03	13.04
Minimum Tier I capital ratio required by Supervisor of Banks	[(2)]9.00	7.50
Total minimum capital ratio required by the Supervisor of Banks	[(2)]12.50	9.00

(1) The minimum Tier I capital requirement applies as from January 1, 2014.
(2) As from January 1, 2015.

Risk exposure and assessment

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. 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, after the Bank Board of Directors has specified the risk appetite for various risk factors to which the Bank is exposed in the course of its business operations, i.e. the maximum allowed exposure.

Risk is regularly managed at the Group in conformity with 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 333 and 350, which apply as from January 2013 and July 2014, respectively), which stipulate new standards for risk management and control at the Bank. The Bank is also preparing to apply the Bank of Israel's new directive on liquidity, 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 quarterly basis, the status of the risk profile in view of the risk appetite specified in the policy document. Thus, this document complements and reinforces the view of the risk profile provided in the Bank's annual ICAAR document. The Bank also runs a variety of stress tests that challenge its current risk profile under stress conditions, given change in risk factors relevant for Bank operations, while emphasizing stress tests that review the risk profile under material changes to macro-economic conditions.

Board of Directors - Sets Bank policies on risk and capital management, including approval of material risk factors for Bank operations, a framework for management and control of various risk factors and in particular the risk appetite framework and limitations, approval of business objectives and setting the strategic plan, as well as the risk profile derived there from. The Board of Directors approves policy on handling various risk factors and management of capital and monitors the implementation of such policy, while monitoring the Bank's risk profile in view of the risk appetite approved by the Board. The Bank’s quarterly risk document, annual ICAAP document and the reporting chain specified under routine and emergency conditions, all are key tools for monitoring the risk profile at the Bank, given the risk appetite specified by the Board of Directors.

Management - committed to identification and management of material risk to which the Bank is exposed (each Risk Owner in their own area). Management is tasked with implementing policies for management of each risk factor, compliance with the risk appetite set by the Board of Directors and development of strategies and tools for risk mitigation and for reducing potential damage, under routine and emergency conditions.

Business units - these risk-taking units are at the forefront of risk management, and use tools, processes and procedures for on-going risk management in order to achieve business targets, subject to the specified risk appetite framework.

CRO - in 2011, the Bank established a dedicated division for risk control. The Risk Control Division Manager is the Bank's Chief Risk Officer (CRO). The Risk Control Division is the central line for risk control operations, using dedicated tools, processes and systems (sometimes different than those used by the business units) and procedures. The Division uses monitoring tools as close as possible to operations of the business units and to the risk-taking events. These include intra-day monitoring tools, as described below. The Division is tasked with constantly challenging the Bank's risk appetite, while monitoring the Bank's risk profile – including evolution of the risk profile in recent quarters - with respect to various risk factors - both under normal and stress conditions. The Risk Control Division is also responsible, through designated units for handling compliance risk and money laundering risk at the Bank and for validation of models used by the Bank (model risk) and for providing an independent opinion (analysis) on credit approval. During the year, in conformity with Bank of Israel directives, the Division has started to co-ordinate, as back-up operation, the Bank's credit policy document.

Internal Audit - forms another layer for tracking and monitoring risk level. Internal Audit operations usually take place after risk has been taken. Internal Audit, using the tools in its use, acts independently to map and assess the risk level at the various units.

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's Board of Directors.

The Bank has approved a dedicated policy on credit concentration risk, in which it has specified the risk appetite in this area and specified methodology for measurement, control and reporting. Bank policies with regard to credit is based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and the implications there of on credit risk.

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate.
In 2014, the Bank implemented Proper Conduct of Bank Business Regulation no. 301 with regard to regulation of the Board's operation, including specification of dedicated reports related to credit, which are reported to the Board of Directors and its committees. For further details, see above the chapter on Legislation and Supervision of Bank Group Operations.

Quantitative components of Basel II, and to an even greater extent, its qualitative components, significantly affect how credit risk is managed at the Bank, in particular the ICAAP process conducted in conjunction with Basel II, Pillar 2. The ICAAP process reviews credit risk management processes, including setting of credit policies and specification of risk appetite, in view of evolution of the Bank's risk profile. The Bank's credit portfolio is subject to a variety of stress tests to review the potential impact of various credit risk factors on performance of the Bank's credit portfolio. Models for assessment of credit risk are under constant validation by the Bank's Validation Department, which is the second line of defense in the Risk Control Division.
Group operations with regard to credit to the public are managed by several key segments, which differ in client attributes and types of banking services these clients require, as well as in the organizational unit responsible for handling each client type:

- The Household segment, Small Business segment and mortgage operations are under the responsibility of the Retail Division.
- The Commercial Banking segment and Business Banking segment are under the responsibility of the Business Division.
- Clients of international operations are under the responsibility of the International Operations sector of the Financial Division.

For details of client attributes in each segment, see chapter on Description of Bank Group Business by Operating Segment and chapter on International Operations.

As part of the credit granting process, transaction data is reviewed in accordance with criteria determined by the Bank. The decision making process for granting credit is hierarchical, from branch level to Board of Directors level. Each unit which provides credit monitors on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the client, based on their level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit. In addition, the credit granting process involves the Analysis Department, which is part of the Bank's risk management function – operating in the Risk Control Division. This involvement includes, with regard to major credit exposures and to economic sectors, as stipulated by Bank procedures, independent analysis of credit applications and presentation of conclusions and recommendations in a written document enclosed with the credit application and brought for discussion by the Supreme Credit Committee.

The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

Considerations in extending credit – The considerations involved in granting credit are based mainly on the quality of the client, his reliability, financial strength, liquidity, repayment ability, seniority in the industry, length of time with the Bank, behavior in the account and on the quality of the collateral, as described below. Likewise, the Bank works to match credit type and terms to client needs. In cases in which loans are issued based solely on the quality of the borrower, without a collateral requirement, certain contingencies are set at times, including compliance with financial covenants.

Procedures - Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment, while learning lessons from different events.

Risk diversification - The Bank’s credit policies are based on diversification and controlled management of risk. Risk diversification is characterized by several aspects: Diversification of the loan portfolio across economic sectors, including increased exposure to specific sectors, diversification across client size groups, diversification across different linkage bases, geographic diversification if applicable (construction sector, mortgages). For details on concentration risk management, see below.

Authority to grant credit – In order to streamline the decision-making process as it relates to granting credit while minimizing risk, a ranking of authority was determined for officers and credit committees at different levels, up to the level of the Board of Directors and its Credit Committee.

Credit-granting decisions, beginning from the district level, are made by credit committees in order to minimize the risk in relying on the judgment of a single individual. The credit authorizations include limitations on credit limit as well as on the percentage of unsecured credit that each authorized official is permitted to approve, and other guidelines were prescribed relating to the prerogative to exercise authority in certain situations.

Currency exposure in credit - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these customers. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Credit in the construction and real estate sectors- In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand and mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand.

In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risk in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risk inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector.

Borrower rating - The Bank has developed a system for rating business borrowers, based on a computerized testing model that combines quantitative and qualitative assessments of borrower, which has been adapted for a range of business borrowers according to various economic sectors. The Bank regularly maintains the different existing models and develops new models, and acts to adapt, update and improve them in line with changes in the business environment.

This system is used for most of the Bank's business loans. The objective of the system is to provide for credit risk management and to support decision making processes. The system determines the rating of a borrower as a function of the quality of the client, the collateral furnished and the amount of credit received. The Bank has developed its ability to rate clients in the mortgage segment and in the retail segment using advanced models, as defined in Basel directives and in Bank of Israel directives. Each such client is assigned a credit score which reflects the borrower quality, as noted above. The models used by the Bank for rating borrowers are constantly validated, in conformity with the Bank of Israel directives.

Learning lessons – credit control processes are conducted from extending credit to credit repayment; however, sometimes credit is not repaid as required and custom handling is necessary. Learning lessons is a process designed to identify inappropriate credit behavior in order to avoid repeating mistakes and to improve the credit portfolio. Lessons are learned with regard to clients for which certain criteria have been specified, by the Special Client Sector in the Business Division. This Sector distributes its findings to relevant parties at the Bank in order to analyze the failure and to implement the conclusions among credit officers at the Bank.

Monitoring and control - Control over credit operations is a key component in maintaining quality of credit extended by the Bank to clients, including maintaining the quality and position of collateral required to secure credit. The Bank continuously acts to identify and locate, as soon as possible, any indications of impairment of borrowers' repayment capacity or any deterioration in the state of their collateral, in order to avoid potential credit failure. The Bank applies different control mechanisms, some of which are internal controls within the credit management chain, which are regularly conducted by branches, regions, headquarters and specific units involved there with, and some - controls by entities external to the credit process, i.e. in case of a second-line event. These are in addition to control processes conducted independently by internal control, the third line of defense.

The control mechanisms at branches, regions and headquarters are based on Bank procedures as well as internal procedures of these units, and are regularly followed as part of the normal business routine of the various levels. Each credit level controls the relevant credit decisions of those levels reporting to it, as well as the current credit behavior of these clients.

Additional controls are implemented by headquarter units of the Business Division, at different frequencies, by different entities which report to the supervisors there of. There are lateral identification and control processes in place, along with specific processes adapted to each sector's unique operations.

Furthermore, the Mortgage sector conducts an internal review process aimed at identifying faults and weaknesses soon after they actually occur. The process is designed to draw attention of the relevant entities to quality of work at the branch, quality of underwriting and adherence to procedures and regulations.

Concurrently, control is exercised by dedicated Bank units. The Business Credit Control Department, of the Business Division, uses computer systems to discover and alert to unusual accounts and clients, including based on information external to the Bank. Control is applied to banking operations in accounts flagged due to risk indications, based on criteria specified by the Bank for the population under control, as well as for all Bank clients by means of IT systems which provide alerts and report notifications and unusual occurrences. In the Real Estate sector, a dedicated control unit operates to control and review various aspects with regard to handling of real estate transactions by the Bank. In the Mortgage sector, a nation-wide underwriting center operates to enhance control of complex loan approval or of special populations, where loan approvals are provided by a professional, specialized team working at the Mortgage headquarters. In addition, both the Business Division and the Retail Division include division controllers, who perform various controls at division level, including responsibility for watch lists.

The Risk Control Division is a control entity for credit risk within the second defensive line. The Risk Control Division, includes the Analysis Department, which provides independent review of major credit applications, presenting its recommendations for the credit approval process to senior forums at the Bank. This department and the Credit Control Department report, as from early 2014, to the Manager, Risk Control Division - the Bank's CRO. The Analysis Department participates in approval of credit applications - as an independent entity. The Department reviews all credit applications discussed by the Business Division's credit committee, by the Supreme Credit Committee and by the Board of Directors' Credit Committee - providing its independent opinion with regard to such applications. The analysis recommendations include a recommendation as to actual approval of the application, and as to any further conditions or restrictions to be considered as a condition for approval of the credit application. The department representative regularly attends meetings of the aforementioned credit committees.

The Risk Control Division also validates the Bank's rating model and models used in assessment of credit risk, through its Validation Department and applies controls for credit risk, through a dedicated department, in conformity with Proper Conduct of Banking Business regulation 311, by rating borrower quality retroactively and by reviewing the quality of the Bank's loan portfolio, including stress testing, based on an annual work plan approved by the Board's Risk Management Committee and by the Board of Directors.

This work plan regularly includes the following:

- Monitoring low-rated borrowers on criteria model or on independent rating by the Credit Risk Control Department.
- Credit control at London and Los Angeles branches via external entities which report to and are professionally guided by the Credit Risk Control Department in Israel.
- Testing of reliability and quality of rating provided by the credit departments, with reference to quality of the model and rating results generated there by, and their implications for the Bank's loan portfolio.
- Analysis of the Bank's loan portfolio - and in particular, analysis of its mortgage portfolio - including evolution of housing loans granted and loan composition by various risk factors.
- Review of the Bank's loan portfolio in view of the credit policies and risk appetite limitations adopted by the Bank.

Monitoring and control systems - the Bank Group regularly uses computer systems for management and control of credit risk. These computer systems provide control tools for personnel, including the specific unit assigned with identifying and controlling credit risk, to identify loans that exceed credit limits or are under-collateralized, as well as tools for identifying credit-risk developments resulting from the existence of various parameters in client-account development and management. There are several significant systems which play an important role in processes of credit management, risk management and control, including risk management systems, systems for identifying and alerting credit risk, for providing alert information, monitoring of financial covenants, automatic debt classification system and computer system for control and management of all accounts under legal proceedings.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control. Identified clients are handled by the Special Client Sector of the Business Division.

In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debt, based on specified criteria. Some of these criteria require debt to be classified as troubled debt, while others provide a warning and allow the professional entity to exercise discretion. Debt is reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels, granted to committees headed by the Manager, Accounting and Financial Reporting Division and senior Bank management. Concurrently with the identification and classification process, a built-in, independent control process is conducted by regional management and by designated units at headquarters. Bank operations are carried out in conformity with Regulation 314 of the Bank of Israel.

A computer system which supports application of measurement and disclosure provisions for impaired debt, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debt classification as debt under special supervision, inferior debt, impaired debt or debt in restructuring, as required.

Identification of housing loans (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings.

Provision for credit losses - upon application of the new directive for measurement and disclosure of impaired debt, credit risk and provision for credit losses on January 1, 2011, the Bank implemented a computer system for identification and classification of debt where risk of credit losses exists or may emerge. The system is connected to various infrastructure systems at the Bank, combining data to allow for debt review designed to assess the robustness there of and expected cash flows there from. The new system applies automated processes for identification, review, classification and determination of provisions, including process documentation and hierarchical approvals based on authorities specified in Bank procedures. The system also allows for handling troubled debt not identified by the automated identification processes, but rather using qualitative tests of the Bank's loan portfolio.

The decision about the amount of provision for credit losses is derived from the quality of credit and collateral, the financial and legal standing of the borrower and guarantors, as well as environmental and sector conditions in the client environment.

For further details of the directives and their effect on financial statements, see Note 1.I.1 to the financial statements.

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’s Board of Directors as part of the policy documents.

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 December 31, 2014	Sovereigns	Public sector	Banking corpora-tions	Corpora-tions	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total[(2)]
Loans[(3)]	22,946	546	2,576	27,665	2,363	14,981	7,112	96,051	-	174,240
Securities[(4)]	12,710	1	342	67	-	-	-	-	-	13,120
Derivatives[(5)]	35	505	951	2,379	-	28	8	-	-	3,906
Other off-balance-sheet exposures	51	176	35	42,773	484	10,610	2,724	6,273	-	63,126
Other assets[(6)]	-	-	-	-	-	-	-	-	4,386	4,386
Total	35,742	1,228	3,904	72,884	2,847	25,619	9,844	102,324	4,386	258,778

As of December 31, 2013	Sovereigns	Public sector	Banking corpora-tions	Corpora-tions	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total[(2)]
Loans[(3)]	22,729	486	2,684	28,210	2,367	14,108	6,115	88,594	-	165,293
Securities[(4)]	5,466	7	566	161	-	-	-	-	-	6,200
Derivatives[(5)]	174	592	879	1,269	-	33	7	-	-	2,954
Other off-balance-sheet exposures	7	216	72	38,856	533	10,146	2,512	4,164	-	56,506
Other assets[(6)]	-	-	-	-	-	-	-	-	4,198	4,198
Total	28,376	1,301	4,201	68,496	2,900	24,287	8,634	92,758	4,198	235,151

(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 (NIS in millions)(1):

					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

					As of December 31, 2013
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total(2)
Loans(3)	52,322	24,404	88,454	113	165,293
Securities(4)	323	4,600	1,277	-	6,200
Derivatives(5)	1,528	590	836	-	2,954
Other off-balance-sheet exposures	46,327	9,147	1,032	-	56,506
Other assets(6)	2,397	-	86	1,715	4,198
Total	102,897	38,741	91,685	1,828	235,151

(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 (NIS in millions)[(2)]:

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

Before credit risk mitigation

	As of December 31, 2013									
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure	Deducted from equity	Total
Rated exposures:										
Sovereign debt	25,820	2,517	-	-	-	38	-	28,375	-	28,375
Public sector entity debt	-	-	-	1,295	-	-	-	1,295	-	1,295
Banking corporation debt	-	2,707	-	1,401	-	56	-	4,164	-	4,164
Corporate debt	-	31	-	195	-	-	-	226	-	226
Other assets	-	-	-	-	-	-	-	-	33	33
Total	25,820	5,255	-	2,891	-	94	-	34,060	33	34,093
Non-rated exposures:										
Public sector entity debt	-	-	-	7	-	-	-	7	-	7
Banking corporation debt	-	14	-	12	-	-	-	26	-	26
Corporate debt	-	-	-	-	-	67,638	172	67,810	-	67,810
Debt secured by commercial real estate	-	-	-	-	-	2,881	-	2,881	-	2,881
Retail exposure to individuals	-	-	-	-	24,086	46	57	24,189	-	24,189
Loans to small businesses	-	-	-	-	8,486	21	42	8,549	-	8,549
Residential mortgages	-	-	56,868	7,077	22,612	5,342	217	92,116	-	92,116
Other assets	1,145	-	-	-	-	2,998	55	4,198	87	4,285
Total	1,145	14	56,868	7,096	55,184	78,926	543	199,776	87	199,863
Total exposure	26,965	5,269	56,868	9,987	55,184	79,020	543	233,836	120	233,956

(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, 2013									
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure	Deducted from equity	Total
Rated exposures:										
Sovereign debt	26,285	2,517	-	-	-	21	-	28,823	-	28,823
Public sector entity debt	289	-	-	992	-	-	-	1,281	-	1,281
Banking corporation debt	-	2,700	-	1,401	-	53	-	4,154	-	4,154
Corporate debt	-	31	-	195	-	-	-	226	-	226
Other assets	-	-	-	-	-	-	-	-	33	33
Total	26,574	5,248	-	2,588	-	74	-	34,484	33	34,517
Non-rated exposures:										
Public sector entity debt	-	-	-	7	-	-	-	7	-	7
Banking corporation debt	-	184	-	139	-	-	-	323	-	323
Corporate debt	-	-	-	-	-	58,540	156	58,696	-	58,696
Debt secured by commercial real estate	-	-	-	-	-	2,461	-	2,461	-	2,461
Retail exposure to individuals	-	-	-	-	22,119	19	56	22,194	-	22,194
Loans to small businesses	-	-	-	-	6,511	17	38	6,566	-	6,566
Residential mortgages	-	-	56,867	7,074	22,512	5,340	217	92,010	-	92,010
Other assets	1,145	-	-	-	-	2,998	55	4,198	87	4,285
Total	1,145	184	56,867	7,220	51,142	69,375	522	186,455	87	186,542
Total exposure	27,719	5,432	56,867	9,808	51,142	69,449	522	220,939	120	221,059

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Regulation 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).
As of December 31, 2014, the Bank had no borrower group which meets the aforementioned criteria.

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

- Business with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Leveraged financing

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

- Credit for financing the acquisition of means of control, which typically has a high LTV ratio relative to the value of shares, and relying on the acquired shares as a source for credit repayment, as well as other credit extended to the borrower after the financing for acquisition of means of control, with repayment primarily based on the cash 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 December 31,	
Economic sector of acquired company	2014	2013
Construction and real estate	228	179
Communications and computer services	-	204
Total	228	383

Credit to leveraged companies (NIS in millions):

	On-balance sheet credit risk as of December 31,	
Economic sector of borrower	2014	2013
Construction and real estate	270	470
Commerce	181	224
Industry	-	212
Financial services	41	136
Total	492	1,042

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

			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
Of which: Troubled commercial credit risk, net[5]	-	-	-

			As of December 31, 2013
External credit rating	On-balance sheet credit risk[3]	On-balance sheet credit risk[3]	On-balance sheet credit risk[3]
AAA to AA-	768	-	768
A+ to A-	1,462	2	1,464
BBB+ to BBB-	3	-	3
+BB to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
7	2,237	12	2,249
Of which: Troubled commercial credit risk, net[5]	-	-	-

(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).
(5) Credit risk for impaired, inferior credit or credit under special supervision, excluding credit risk with respect to individuals.

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 19.E. to the financial statements.

Some of the exposures listed in the above table are included under Management Discussion - Addendum E - 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 specified 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 the financial institution is also taken into consideration. The policies also stipulate 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 the 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 setpolicies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on 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.

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 by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress tests to review the impact of macro-economic factors on portfolio risk - primarily the impact of unemployment, 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.

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 (see below under Credit Control). Over the past two 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 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 specified risk appetite benchmarks 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.

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 further details, see above the chapter on Legislation and Supervision of Bank Group Operations.

Means for risk management in housing loans

Criteria for loan approval

The Bank has specified uniform, quantitative criteria for review and approval of housing loan applications. Along with the uniform criteria, decision makers at the Bank exercise their judgment. The guiding criteria for granting housing loans have been determined, inter alia, based on the following:

A. Accumulated experience at the Bank with regard to housing loans, including lessons learned over time with regard to parameters which determine borrower quality and quality of loan collateral.

B. Results of current credit reviews which include, inter alia, review of changes to credit quality in certain sectors.

C. Assessment of credit risk arising from variable macro-economic market conditions.

D. Assessment of credit risk in different areas of the country, due to security-related and other events.

These criteria are regularly updated in line with market developments.

Credit authority

The Bank has created a ranking of authority for approval of housing loans (at branch, region and headquarters level). The authorized entity to approve the loan is determined based on data in the loan application and on inherent risk there of (data about borrowers, LTV ratio, risk premium and nature of the transaction). To enhance control over approval of complex, high-risk loans and loans to specific populations (such as: large loans, transactions between family members and individual borrowers), and to make use of specialization in such loans, such applications are sent for approval by the Underwriting and Control Department operating in the mortgage headquarters sector, staffed by a professional team supervised by the Deputy Manager, Mortgages at the Retail Division.

Model for determination of differential risk premium

The Bank has developed a model for calculation of differential risk premium, based on past empirical data, for rating transaction risk at the loan application stage. For each application, an individual risk premium is calculated based on all risk factors identifiable in client information and attributes of the desired transaction.

This premium reflects an estimate of overall transaction risk, allowing for assessment of client odds of being in arrears on the loan or becoming insolvent - at the outset of the application stage. This premium is used for both credit decision making and for pricing of client interest rate. The Bank has started to improve this model.

Built-in controls in loan origination system

The Bank manages its mortgage operations using a dedicated computer system developed for this purpose, which includes the following built-in controls:

- Ensure information completeness required for loan and activities required in preparation of the material, review and approval of the loan.
- Rigid, real-time control over transactions by authorization. Use of this preventive control methodology significantly reduces the need for discovery controls after loan origination.
- Workflow process with real-time control over execution of all required tasks at each stage of the loan origination process, sending the application to the authorized entity for performing the required actions at each stage of the loan approval process.

Use of this system has resulted in improved control in different stages of the loan origination process, while achieving uniformity among different Bank branches.

Mortgage-related training

The Bank Training Center delivers courses for training, development and improvement of all those involved in provision of housing loans. Training content is determined in cooperation with the Mortgage Headquarters Sector, and staff at headquarters participates in training delivery to bankers. In 2014, the Bank continued to deliver, along with the basic course, an advanced mortgage banker's course as well as a mortgage course designed for managers of commercial

branches. These courses include, inter alia, special emphasis on risk management. An additional track for training and certification of mortgage bankers was also developed. This track was launched in 2014.
Training of staff and management has significant impact on their professional level when granting credit and making credit-related decisions, as well as during on-going management of client credit.

Professional conferences

The Retail Division regularly holds professional conferences for managers and bankers. In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risk associated with such developments. Over the past year, as in the previous year, special emphasis was placed at conferences on Bank of Israel directives issued in recent years and their impact on providing housing loans (including capital and risk asset allocation, restrictions on originating adjustable interest rate loans, LTV restrictions, repayment ratio etc. as set forth in chapter Legislation and Supervision of Bank Group Operations, below).

Credit control

Credit control is a key factor in maintaining quality of credit provided by the Bank to its clients. Control over housing loans is exercised at the individual borrower level as well as for the entire mortgage portfolio.
At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank operates various controls, including regular internal controls at branches, regions and headquarters, as well as additional controls by entities external to the process and to the credit units - the Risk Control Division and Internal Audit.
The Bank maintains control over quality of new credit provided by branches, by means of a monthly Credit Quality report, which includes all loans originated by the Bank between 6-18 months prior to the reported date which are over 3 months in arrears. This report is designed to assist branches in reducing the extent of arrears, and to increase awareness of troubled loans by those originating and approving loans in order to learn lessons for future credit approval. Along with the individual report, listing loans, details of arrears etc., a statistical report is also produced, showing the extent of arrears at each branch, compared to the region and to the Bank as a whole, and compared to previous months. Management of the Retail Division regularly monitors handling of debt in arrears, using this report. The Bank has also started to provide quantitative and qualitative analysis of its loans in arrears, using other analysis and control reports.
For the entire mortgage portfolio, control is maintained of restrictions imposed by the Bank's risk appetite, both at the Retail Division and at the Risk Control Department of the Risk Control Division.

In addition, a credit control report is produced annually by the Risk Control Division, containing an extensive review of the development of the housing loan portfolio's risk profile over the reviewed period, with reference to the following:

- Risk appetite.
- Analysis of major risk factors and attributes.
- Review of state of arrears and credit quality
- Client debt collection
- Housing loan portfolio for special populations
- Stress testing
- Purchase groups.

Tools for risk mitigation in housing loans

Collateral

In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.

For verification of information about the property offered to the Bank as collateral and to determine its value, an assessor visit to the property is normally required, providing a report which describes the property, its location, physical condition and market value. Assessors are party to an agreement with the Bank and act in accordance with Bank guidance, including a structured procedure for conducting assessments, identifying exceptions etc.

The common practice for assessment in the mortgage sector is to use an abbreviated assessment. However, since 2006, the Bank has required assessors to conduct extended assessment for some of the loans for purchase of existing apartments, self-construction or general-purpose loans with high-risk property types, which includes additional tests subject to criteria set for this matter.

Insurance

According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.

For some loans (usually loans with LTV ratio higher than 75%), the Bank contracted with EMI Corp., which provides credit insurance in case the proceeds from realization of the property collateral for the loan should fail to cover the outstanding loan amount. This credit insurance process is a key risk mitigator.

As from November 1, 2012, the Bank of Israel restricted origination of housing loans with LTV over 75%, so that as of this date the Bank no longer approves new loans with credit insurance and LTV over 75% (except for loans exempted from this directive, such as loan refinancing).

LTV ratio

The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, borrower equity is a further indication of the borrower's financial robustness. As from November 1, 2012, the Bank restricted the LTV ratio for approval of applications for housing loans, pursuant to the Bank of Israel directive on this matter. The LTV ratio for loans to acquire rights to real estate constituting a "single apartment" (as defined in the directive) shall not exceed 75%, for an "alternative apartment" (as defined in the directive), the LTV ratio shall not exceed 70%, and for acquisition of an investment property, general-purpose loan or loan extended to foreign residents - the LTV ratio shall not exceed 50%. For details, see the chapter on Legislation and Supervision of Bank Group Operations. For details of the Supervisor of Banks' directives with regard to capital adequacy, see Note 14.F. to the financial statements.

Entities participating in risk management for housing loans

Mortgage Management Department of the Retail Division

This department handles different events which occur during the loan term, whether initiated by the Bank or by the borrower. One of the key tasks is monitoring of collateral provided. During loan origination, the Bank usually received interim collateral, and the final collateral is expected to be received during the loan term. The department also monitors receipt of life and property insurance policies during the loan term.

Risk Control Division

The Risk Control Division reviews the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. As for mortgages, since 2012 the portfolio is analyzed semi-annually, including analysis of developments in housing loan grants and our market share, as well as credit composition by various criteria. This report is discussed by the Supreme Credit Committee and by the Board of Directors' Risk Management Committee and is then presented to the Bank’s Board of Directors. The division is responsible for regular stress testing of the Bank's mortgage portfolio, while 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. 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, as part of the general framework for handling operating risk and in conformity with Bank of Israel Regulation 350.

Credit risk and credit concentration monitoring forum

The Bank operates a forum for monitoring credit risk, headed by the Manager, Risk Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there in, analysis of credit portfolio risk level, application of advanced modeling approaches, specification of triggers for activating stress testing; supervision of design and application process of stress testing, and monitoring of the risk profile of the Bank's loan portfolio. Early in the second quarter of 2012, the Bank started monitoring its mortgage portfolio using advanced Basel models (IRB II). This monitoring is part of the Bank project for development, validation and application of advanced models for various segments of the mortgage portfolio. Analysis of the mortgage portfolio using the new models is in addition to current analysis conducted by the Bank using "traditional" tools. As noted above, in early 2013 development of this project was discontinued, while maintaining the capabilities already achieved with regard to portfolio analysis and, in particular, conducting regular stress testing.

Legal Division

As part of the underwriting process, collateral for non-standard loans (loans to individuals, transactions involving family members) and high-value loans are reviewed by the Mortgage Advisory Department, a specialized entity in the Legal Division. This test complements the loan approval and review conducted at the branch and the regional underwriting department.

Collection Department

The Bank operates a dedicated Collection Department, which handles debt collection from borrowers in arrears and realization of properties. Processing is automatically launched once the client fails to make a mortgage payment for the first time. If this failure is not resolved, processing continues by the Telephone Collection Center (prior to filing a law suit), designed to reach payment arrangements with clients. If such an arrangement with borrowers cannot be reached, the debt is processed by the Bank's Collection Department, which includes a dedicated department for mortgage debtors, and legal proceedings are initiated vs. the debtors.

Arrears Forum

The Arrears Forum of Bank management convenes monthly, headed by the Manager, Business Division, and reviews the current state of affairs with regard to collection in the previous month, implications on the financial statements and on the provision for credit losses. The Forum specifies targets for debt processing and for reducing arrears.

Internal Audit

The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

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 December 31, 2014).

LTV ratio

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

The average loan-to-value ratio for the Bank's mortgage portfolio as of December 31, 2014 was 55.8%, compared to 56.3% on December 31, 2013 and to 57.8% on December 31, 2012. Out of the total loan portfolio of the Bank, amounting to NIS 97.2 million, 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 0.6 billion, or only 0.6% 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 specified in Section 9(c1a)(2)(a)(2) of the Real Estate Taxation Act)

Up to 50% – for buyers of a rental property, for general-purpose loans and for loans to foreign residents.

Loans granted with a high LTV ratio are usually secured by credit insurance, which significantly reduces risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 3.8 billion is insured by credit insurance - 47.0%.

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 2.4% for loans granted 1-2 years ago, 0.7% for loans granted 3-12 months ago and 0.7% for loans granted in the fourth quarter of 2014.

Loan 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 29.6%. Some 75% of the Bank's mortgage portfolio was granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 24%). Some 19% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.7%). Some 5% of mortgages 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 92.4%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

On August 29, 2013, the Supervisor of Banks issued directives with regard to restrictions on provision of housing loans, which stipulated restrictions on the ratio of monthly loan repayment to income.
On July 15, 2014, the Supervisor of Banks issued a circular concerning restrictions on provision of housing loans, which incorporates, *inter alia*, the directives described above, dated August 29, 2013. The circular also redefines the term "repayment ratio". For further details, see above the chapter on Legislation and Supervision of Bank Group Operations.

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 1.5%-5% in 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 10.8% 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 27, 2013, were incorporated in a circular concerning restrictions on provision of housing loans dated May 15, 2014.
For further details, see above the chapter on Legislation and Supervision of Bank Group Operations.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 4.0 billion, 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%	2,589	7,899	8,446	14,064	7,517	1,963	42,478
	35%-50%	484	1,413	2,328	4,558	1,824	435	11,042
	50%-80%	12	9	609	1,709	771	190	3,300
	Over 80%	-	-	60	160	136	44	400
60%-75%	Up to 35%	1,153	4,183	5,336	9,436	3,770	593	24,471
	35%-50%	158	522	1,207	2,735	1,035	184	5,841
	50%-80%	2	2	196	831	381	75	1,487
	Over 80%	-	-	6	49	62	14	131
Over 75%	Up to 35%	29	81	343	2,463	1,804	1,250	5,970
	35%-50%	2	11	78	541	472	468	1,572
	50%-80%	-	-	14	98	177	161	450
	Over 80%	-	-	6	16	36	33	91
Total		4,429	14,120	18,629	36,660	17,985	5,410	97,223
Of which:								
Loans granted with original amount over NIS 2 million		162	494	799	1,969	560	26	4,010
Percentage of total housing loans		3.7%	3.5%	4.3%	5.4%	3.1%	0.5%	4.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,031	4,145	5,317	10,959	9,103	327	30,882
CPI-linked(3)		16	152	291	3,773	3,714	1,378	9,324
In foreign currency(3)		77	393	641	2,716	492	366	4,685
Total		1,124	4,690	6,249	17,448	13,309	2,071	44,891
Non-linked loans at prime lending rate, as percentage of total housing loans		23.3%	29.4%	28.5%	29.9%	50.6%	6.0%	31.8%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.4%	1.1%	1.6%	10.3%	20.7%	25.5%	9.6%
Loans with LTV over 75% as percentage of total housing loans		0.7%	0.7%	2.4%	8.5%	13.8%	35.3%	8.3%

(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 December 31, 2014 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears[4]	
	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		Total
Amount in arrears	5	9	13	11	198	231	78	314
Of which: Balance of provision for interest[1]	-	-	-	1	97	98	6	104
Recorded debt balance	305	318	172	60	181	731	219	1,255
Balance of provision for credit losses[2]	-	-	24	31	140	195	96	291
Debt balance, net	305	318	148	29	41	536	123	964

(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

The Bank Group takes different actions to mitigate risk associated with extending credit and with credit concentration (on this issue, see chapter "Credit risk and credit concentration monitoring forum"). Below is a description of major tools used to mitigate risk in conjunction with the Bank's credit policies.

Collateral – Bank procedures specify the asset types which may be recognized as collateral for providing credit. The commonly used collateral types at the Bank are: Deposits, securities, liens on real estate, vehicles, , credit vouchers, checks, bank guarantees and institutional, corporate or individual guarantees. As part of the collateral policies, rules and principles were prescribed as to the level of reliance on each type of collateral, with regard to its character, marketability, price volatility, promptness of realization and legal status, in addition to assessing the repayment ability of a client as a criterion for issuing the loans.

The collateral is matched, as far as possible, to the type of credit that it secures, while taking into account the period of time, types of linkage, character of loans and their purpose, as well as how quickly it can be realized. Collateral coefficients determine the extent to which the Bank is willing to rely on specific collateral to secure credit. The value of the collateral, with the use of safety factors, is, as far as possible, calculated automatically by the IT systems. The safety factors for different types of collateral are examined at least once a year and are approved by the Board of Directors' Credit Committee and by the Board of Directors. There is also collateral in place which is not accounted for in calculating safety factors, but only used to reinforce existing collateral. The Bank also approves, on a limited, case-by-case basis, the granting of credit solely on the basis of the borrower's obligation.

Bank procedures specify rules for ongoing collateral management, including updates to the value of collateral: Deposits and bank guarantees are regularly updated based on their terms and conditions; collateral consisting of negotiable securities is regularly updated based on its market value; with regard to collateral consisting of real estate, the procedure determines the date for valuation by a licensed assessor in accordance with the type of credit secured by the property. Valuation is also carried out in case of concern regarding material impairment of the collateral, which may cause the Bank to face shortage of collateral.

As set forth above, including in the chapter on Basel Committee Recommendations, the Bank makes extensive use of collateral not recognized under credit mitigation rules of Basel II (real estate, liens on automobiles, personal guarantees) in order to mitigate credit risk.

Hedging - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these clients. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Concentration - The Bank has approved current, dedicated policies on concentration risk with regard to credit. The Bank's credit policies are based on diversification and controlled management of risk.

Risk diversification is characterized by several aspects:

- Diversification of the loan portfolio among the different economic sectors, including limiting exposure in certain sectors.
- Diversification of over-sized groups of clients.
- Diversification of linkage segments.
- Geographic diversification where relevant (construction industry, mortgages).

Economic sectors – The Bank's Executive Management and Board of Directors hold discussions on the issue of credit to certain industrial sectors, as is necessary, mainly as it relates to industries that are sensitive to fluctuations in business cycles. Credit policies for the sensitive industries are set on the basis of an economic analysis of the developments forecast for these industries. The Bank maintains distribution of indebtedness among different sectors, so as not to create extraordinary indebtedness according to provisions of Proper Conduct of Banking Business Regulation 315. Loans to certain sectors, such as diamonds, construction (including sub-sectors) – are handled by professional units or by personnel specializing in these industries. Specific rules and procedures have been prescribed for these specific sectors, beyond those relating to the issue of credit, in order to deal with their special credit risk.

Major clients – The Bank provides credit to large clients through the Corporate sector, which operates teams with sector expertise. Occasionally the Bank limits its share of credit to a major client relative to total extent of credit to that client in the banking system, and in some cases, in order to participate in financing of certain transactions, the Bank requires a financing package to be put in place with participation of other banks (under consortium agreements). The Bank strictly complies with limits on indebtedness of a borrower and a group of borrowers, as well as on total indebtedness of major borrowers and groups of borrowers whose net indebtedness to the Bank exceeds 10%, pursuant to Proper Conduct of Banking Business Regulation 313. For further details with regard to clients served by the Corporate segment, see chapter describing the Bank Group business by operating segments - Business Banking segment.

Linkage sectors – This distribution is also reflected in providing credit in various linkage segments, such that part of the credit is more susceptible to fluctuations in the Consumer Price Index (CPI-linked credit), some is more susceptible to changes in the prime lending rate (non-linked NIS-denominated credit), and some – to foreign currency exchange rate fluctuations (foreign-currency denominated credit or linked to foreign-currency exchange rate).

Geographic diversification – The Bank maintains geographic diversification with regard to credit for construction and mortgages, in order to reduce over-concentration in extending credit.

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

	As of December 31, 2014				
		Exposure covered by guarantees		Exposure covered	
	Gross credit exposure(1)	Amounts deducted(2)	Amounts added(2)	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

	As of December 31, 2013				
		Exposure covered by guarantees		Exposure covered	
	Gross credit exposure(1)	Amounts deducted(2)	Amounts added(2)	by qualified financial collateral	Net credit exposure
Sovereign debt	28,375	(281)	747	(18)	28,823
Public sector entity debt	1,302	(252)	289	(51)	1,288
Banking corporation debt	4,190	(7)	297	(3)	4,477
Corporate debt	68,036	(428)	-	(8,686)	58,922
Debt secured by commercial real estate	2,881	(6)	-	(414)	2,461
Retail exposure to individuals	24,189	(4)	-	(1,991)	22,194
Loans to small businesses	8,549	(355)	-	(1,628)	6,566
Residential mortgages	92,116	-	-	(106)	92,010
Other assets	4,198	-	-	-	4,198
Total	233,836	(1,333)	1,333	(12,897)	220,939

(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.

Restrictions and controls - a limit restriction applies for banks and sovereigns, including reference to derivatives. Furthermore, a restriction applies to customer facilities based on certain parameters. The Risk Control Division includes a dedicated department, specialized in control of exposure arising from capital market operations, which daily reviews clients active in this field. The trading room operations are also controlled, including testing of compliance with various limitations prescribed by the Board of Directors and Executive Management, i.e. compliance with risk appetite.

Risk mitigation - in order to participate in capital market activity, clients are required to provide collateral in accordance with Bank procedures. In its activities vis-à-vis banks and sovereigns, the Bank signs ISDA agreements and CSA addendums. This allows for setting off transactions, such that the amount exchanged between parties to the transaction is limited to the net exposure amount, thereby reducing exposure of either party. CSA addendums regulate funds transfer between parties to a transaction whenever exposure reaches a certain pre-defined level, thereby reducing counter-party exposure.

Current credit exposure with respect to derivatives is as follows (NIS in millions):

	As of December 31, 2014					
	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Face value of derivatives (OTC) after impact of add-on factor	147	1,222	321	1	-	1,691
Positive fair value, gross, of financial 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	2,171	359	-	-	2,977

	As of December 31, 2013					
	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Face value of derivatives (OTC) after impact of add-on factor	164	676	354	1	2	1,197
Positive fair value, gross, of financial derivatives[1]	1,273	1,684	424	1	2	3,384
Effect of offset agreements	(957)	(686)	18	-	(2)	(1,627)
Total exposure with respect to derivatives	480	1,674	796	2	2	2,954
Collateral with respect to derivatives (before safety factors)	(178)	(621)	(460)	(1)	-	(1,260)
Impact of safety factors on collateral	2	204	264	-	-	470
Total current credit exposure after credit risk mitigation	304	1,257	600	1	2	2,164

(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 19.E.

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 portfolio, see Notes 3 and 6.A. The investment balance includes investments in negotiable and public shares amounting to NIS 2 million, and investment in non-public shares amounting to NIS 154 million.

	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

	As of December 31, 2013	
	Fair value	Capital requirement(2)
Shares	62	6
Venture capital / private equity funds	96	9
Total equity investment in bank portfolio	158	15

(1) The capital requirement was calculated at 12.5%.
(2) Capital requirement calculated at 9%, in accordance with interim directive on application of Basel II, Pillar 3.

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 embody two major market risk factors:

- Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments. The Bank manages interest risk in conformity with the Bank of Israel directive concerning management of interest risk (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.

Any new activity by the Bank (such as: new financial products, new exposure type, market making, new banking products etc.) is approved by the Board of Directors, after studying the various risks involved, including market risk associated with this activity and setting limitations and mechanisms for management, measurement and control of that risk, in accordance with Bank policy for handling a new product. Over the past year, the Bank has updated this policy document in conformity with the Bank of Israel's Proper Conduct of Banking Business regulation 310, emphasizing in the policy document the various tracks for handling Bank products and operations, whether new or updated, and the approval and monitoring mechanisms for such products and operations.

In conformity with the Bank of Israel's Proper Conduct of Banking Business regulation 310, in the course of risk management at the Bank, it also accounts for exposure to market risk by subsidiaries. However, note that the market risk and interest risk facing Mizrahi Tefahot subsidiaries is low and non-material.

Risk management at the Bank consists of two main risk clusters: the bank portfolio and the negotiable portfolio. Basel II defines the negotiable portfolio with emphasis on marketability, with clear guidance as to negotiable instruments which the Bank intends to trade for gain. The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific limitations on exposure and profitability. The bank portfolio, which is the Bank's primary activity, consists of all transactions not included in the negotiable portfolio, including financial derivatives used to hedge the bank portfolio.

Interest risk in Bank portfolio

Interest risk in the Bank's bank portfolio is monitored on a regular basis, in conformity with Bank of Israel requirements stipulated in 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):

						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

						December 31, 2013
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(351)	(312)	99	(8)	1	(571)
2% decrease	410	240	(12)	4	3	645

In preparing the mortgage repayment cash flow forecast for the Bank, assumptions with regard to prepayment 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 activity there in.

The VaR model (Value at Risk)

A summary of the models used by the Bank in calculating value at risk is presented below:

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a pre-determined statistical level of assurance.
The VaR value constitutes an estimate of the level of market risk in financial terms. The VaR value can increase as a result of an increase in volatility in those risk factors, or as a result of an increase in the risk level inherent in different positions in a bank’s portfolio. The VAR estimate is to be seen as a “risk thermometer”, because an analysis of the VAR results on a day-to-day basis enables management to obtain value information on the risk level inherent in the Bank’s various activities, to ascertain the Bank’s risk profile, and to take the measures necessary to hedge certain risk in Bank operations. The Bank has specified restrictions (risk appetite) in VaR terms, for the entire Bank portfolio and for its activities in various option portfolios (various underlying assets). VaR calculations for the Bank's overall portfolio are made daily. Calculations for the option portfolios are made hourly. The results of the VaR calculation and other risk benchmarks for the Bank are reported on a dedicated portal.
The VaR model is suitable for ordinary market conditions and does not estimate possible losses beyond the absolute level that was determined in the calculation. Therefore, the Bank strengthens the methodology through stress testing.

Stress testing – Methods designed to estimate the Bank’s expected loss as a result of sharp fluctuations in market prices of risk factors. This model estimates, using different methods, the potential loss at the left tail of the distribution, i.e. beyond the significance level determined in calculating the VaR. The Bank’s stress test methods are two-fold: subjective methods, relying on an economic outline based on a decision by the Risk Monitoring Forum established at the Bank; and objective methods, relying on factors including extreme events and scenarios that occurred in the past. The Bank has specified restrictions (risk appetite), including in terms of stress testing.

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.

The Bank has set up a managerial and technical infrastructure to calculate the VaR model and the stress tests under different alternatives. Results of the models, including analysis of these results, are regularly reported to the Bank's CRO, to the Market Risk Manager, Bank President & CEO, the Board's Risk Management Committee and to the Board of Directors - as part of regular monitoring of the Bank's risk profile, given the risk appetite specified by the Board of Directors. VaR estimates and stress tests are used by the Bank for its daily operation and in particular for specifying its risk appetite. The Bank examines the quality of models used in the VaR calculations, including through back testing, in order to improve the forecasting ability of the models that it uses. The Bank's VaR calculation - and in particular its back testing process - have been extensively validated in 2012, pursuant to guidance by the Bank of Israel with regard to model validation.

The Bank works constantly to improve the models that it uses, from all of the necessary standpoints, viewing these innovative models as important management tools. The Bank sees these models as highly important managerial tools, which are extensively used as tools for monitoring and controlling the risk level inherent in its activities, in different areas. Over the past year, the Bank continued to review emerging methodologies world-wide for calculation of risk benchmarks (some - as a result of the recent global market crisis) in conjunction with Bank preparations for implementation of the new Bank of Israel directive on handling interest risk.

As an outcome of this process, the Bank has expanded use of other models which allow the Bank to challenge its risk profile and in particular, those events beyond the significance level (exploration of the left-hand tail of the distribution); in 2012 the Bank started calculation of Stressed VaR, which estimates the VaR value in case of return to market conditions under the 2008-2009 financial crisis, when the market was in turmoil; the Bank also calculates the Expected Shortfall VaR, which estimates the average loss beyond the specified significance level.

Market risk in both portfolios (bank and negotiable) are managed overall by using the VaR model and stress tests. The Bank operates within the Board of Directors' limitations on market risk in terms of VaR and stress tests. For application of these models, the Bank's available capital is defined as a non-linked NIS-denominated source. The Board of Directors' limitations prescribe that the VaR for all of the Bank's activities in one-month investments, will not exceed 6% of shareholders' equity, and that the maximum loss in stress tests, in the highest of all calculation methods, will not exceed 15% of equity, as noted above. This risk appetite is reviewed annually or more often, as part of the Bank's approval process of its policy documents - and in particular, its market risk and interest risk management policies. According to guidelines set by the Bank, this document policy indicates the risk appetite specified in this area.

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):

	All of 2014	All of 2013
At end of period	286	197
Maximum value during period	288 (NOV)	229 (JUL)
Minimum value during period	162 (JAN)	146 (MAR)

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

Organizational structure of market risk management function (interest and basis)

Management of market risk exposure is based on a policy document which is brought annually or more often for approval by the Bank Board of Directors, after being approved by Bank management and by the Board Risk Management Committee. This document outlines, inter alia, the authority ranking for market risk management and the frequency of discussions and reporting of exposure status at different levels. According to this procedure, the Bank President & CEO is authorized to make risk-management decisions, subject to the frameworks prescribed by the Board of Directors. As noted above, the Bank's risk management policies are discussed, formulated, and monitored by the Management Committee for the Management of Assets and Liabilities chaired by the Bank's President. This committee generally meets once a month, or more frequently, when special developments in the various markets occur or are forecast. According to Bank policy, the Bank President is required to immediately report to the Board of Directors any deviation from the Board restrictions, and any occurrence of extraordinary events, whether internal or external.

The Finance Division Manager, who also functions as Risk Manager, heads a Monetary Committee that meets weekly to deal with practical aspects of the management of assets and liabilities. The Market Risk Manager is empowered to reach decisions on issues relating to the management of exposure in all the linkage segments, in order to implement the policies prescribed by the Bank President & CEO, subject to the limitations prescribed by the Board of Directors. The Manager, Financial Division specifies guidelines for current operations of market risk management, subject to limitations specified by the Board of Directors.

The Manager, Financial Division reports to the Bank President & CEO any deviation from management limitations, in excess of the deviation permitted to them as Market Risk Manager. Any use of the market risk manager's authority to deviate should be reported at the next meeting of the Management Committee on Asset and Liability Management after the date of such deviation.

Examination and control of the various market risks is carried out on a day-to-day basis by the Financial Management Sector in the Finance Division. Market risk controls are carried out by the Risk Control Department in the Risk Control Division. The mechanisms for quantifying the exposures and controlling the compliance within the approved activity frameworks are anchored in internal work procedures. The Board of Directors also holds a quarterly discussion on the "Risk Document", as defined in Proper Conduct of Banking Businesses regulation 310. In this context, as noted above, the Bank regularly monitors the market- and interest risk profile - using the aforementioned benchmarks - both under normal and stress conditions. Upon any unusual occurrence in the capital market, such as an unexpected change in interest rates, shake-ups in the foreign currency markets, changes in fiscal and/or monetary policies, the committees and special forums created by the Bank for such situations, convene for a special discussion in order to reach the decisions required by these occurrences.

Nature and scope of reporting systems for market risk (interest and basis)

The Bank operates a Risk Monitoring Forum which sets the Bank's economic extreme scenarios, discusses and prescribes the methodology for managing and controlling risk, as well as addressing aspects arising from market risk, interest risk and liquidity risk. The Forum is headed by the Manager of the Risk Control Division. Also members are representatives of the Finance Division, of the Risk Control Division and of the Accounting and Reporting Department. The regular activities of the forums enables the existence of day-to-day communications regarding the management of different risk among all the divisions in the Bank that are take part in the process of managing and controlling risk. This forum also handles issues arising from the validation process at the Bank. The validation activity also covers models used by the Bank for management of market risk and interest risk at the Bank.

Hedging and risk mitigation policies

The Bank reduces exposure to market risk of on- and off-balance sheet positions by initiating hedging derivatives transactions, managing composition of the debenture portfolio, and price alignment aimed at promoting activity in desired areas. Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedging instrument. When hedging instruments and hedged items are not fully identical, hedge effectiveness is tested quarterly.

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2014:

Capital increase (erosion), NIS in millions

				Scenarios	Extreme historical scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	815.9	407.9	(407.9)	(815.9)	119.1	(70.2)
Dollar	8.5	3.3	(2.8)	(17.2)	2.1	(1.2)
Pound Sterling	0.9	0.2	0.2	(0.2)	0.1	0.1
Yen	(0.3)	0.0	(0.2)	(0.4)	0.0	(0.1)
Euro	9.9	4.9	(0.6)	6.1	3.4	(1.0)
Swiss Franc	1.1	0.5	0.1	1.2	0.4	0.3

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

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[1]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
December 31, 2014						
Financial assets [2]	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 [2]	(106,774)	(40,571)	(27,577)	(5,173)	(2,767)	(182,862)
Amounts payable with respect to financial derivatives[3]	(91,702)	(10,617)	(62,476)	(12,723)	(5,628)	(183,146)
Total	1,378	7,057	(253)	(82)	(212)	7,888
December 31, 2013						
Financial assets[2]	103,110	54,401	12,880	3,484	1,778	175,653
Amounts receivable with respect to financial derivatives[3]	66,139	3,829	44,160	10,707	4,180	129,015
Financial liabilities[2]	(100,957)	(38,996)	(21,144)	(4,473)	(2,515)	(168,085)
Amounts payable with respect to financial derivatives[3]	(66,863)	(12,787)	(36,001)	(9,730)	(3,565)	(128,946)
Total	1,429	6,447	(105)	(12)	(122)	7,637

Net fair value of financial instruments, after impact of changes in interest rates[4]:

	Israeli currency		Foreign currency[1]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
December 31, 2014								
Change in interest rates:								
Concurrent immediate increase of 1%	1,089	7,109	(252)	(84)	(213)	7,649	(239)	(3.0)
Concurrent immediate increase of 0.1%	1,353	7,059	(253)	(82)	(212)	7,865	(23)	(0.3)
Concurrent immediate decrease of 1%	1,567	6,969	(245)	(80)	(211)	8,000	112	1.4
December 31, 2013[5]								
Change in interest rates:								
Concurrent immediate increase of 1%	1,344	6,168	(104)	(13)	(121)	7,274	(363)	(4.7)
Concurrent immediate increase of 0.1%	1,422	6,437	(105)	(12)	(122)	7,620	(17)	(0.2)
Concurrent immediate decrease of 1%	1,506	6,551	(102)	(9)	(120)	7,826	189	2.5

(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 calculating the fair value of financial instruments, as described in Note 20 to the financial statements, the discount rate for financial assets reflects the inherent credit risk, while the discount rate for financial liabilities also reflects the premium for raising Bank sources, which differs from calculation of the impact of interest risk in the banking portfolio, in EVE (Economic Value of Equity) terms, which only includes the effect of interest risk.

(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.

(5) Re-classified.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20 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 approach 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 discount 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 December 31, 2014			As of December 31, 2013		
	Capital requirements(1)			Capital requirements(2)		
Risk element(3)	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk(4)	-	80	80	-	51	51
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	48	48	-	25	25
Total market risk	-	128	128	-	76	76

(1) The capital requirement was calculated at 12.5%.
(2) Capital requirement calculated at 9%, in accordance with interim directive on application of Basel Pillar 3.
(3) Risk associated with options activity is included under the different components, and was calculated using the Delta Plus approach, as defined in the Supervisor of Banks' directive.
(4) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

Liquidity risk result from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

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.

The Bank is preparing to apply Proper Conduct of Banking Business Regulation no, 221 "Regulatory liquidity coverage ratio", which will become effective in April 2015. 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 preparation includes a forum, headed by a Financial Division manager, established to regularly monitor application of this regulation and achievement of all business unit targets at the Bank with regard to raising and managing sources. 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.

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 above.

The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers. 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, internal and external key risk indicators (internal and external) 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.

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. Note that the Bank's debenture portfolio, used as liquid means, has very high levels of liquidity and credit quality.

In 2014 there were no recorded deviations from the Board of Directors’ limitations.

Nature and scope of reporting systems for liquidity risk

In conjunction with application of Regulation 342, a system of daily and immediate emergency reports to various entities at the Bank has been implemented, in conformity with the liquidity risk management policy. The Bank’s Board of Directors and management receive various reports on daily, weekly, monthly and quarterly basis. Unusual events in liquidity management, including unusual developments in liquidity sources of the Bank, are immediately reported to management and/or to the Board of Directors.

Surplus liquid means over financing requirements in NIS is invested mainly in deposits with the Bank of Israel and in government debentures. Surplus liquid means over financing requirements in foreign currency is invested with the Bank of Israel, with the Federal Reserve Bank and in highly rated debentures which may be quickly realized. In 2014, investments were made in debentures issued by the State of Israel denominated in foreign currency.

Presented below are major data reflecting market risk, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2014, the Group capital exceeded its non-monetary items by NIS 9,549 million. Group free capital, which includes financial capital, was used in 2014 to finance uses in the CPI-linked NIS segment, in line with current policies on resource and use management in the banking portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2014 and December 31, 2013 are presented in Note 17 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investees, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2014 as presented in Note 17 to the financial statements, amounts to NIS 8.3 billion, representing the economic exposure. In December 2013, excess use in this segment amounted to NIS 7.2 billion.

Excess liabilities in foreign currency for the Group as of December 31, 2014 amounted to NIS 310 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, to change in fair value of investment in securities and other adjustments. the position in this segment amounts to surplus uses of NIS 112 million. As of December 31, 2013, the foreign currency position for the Group, after the aforementioned adjustments, amounted to surplus sources of NIS 87 million.

The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

In Addendum D to Management Discussion, the Group's exposure to interest on a consolidated basis is presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for early mortgage repayment. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 20 to the financial statements.

Below is the average effective duration of assets and liabilities as of December 31, 2014:

	Including early repayment assumptions[1]					Excluding early repayment assumptions				
	Assets		Liabilities		Average effective duration difference	Assets		Liabilities		Average effective duration difference
	Average effective duration	Fair value	Average effective duration	Fair value		Average effective duration	Fair value	Average effective duration	Fair value	
Non-linked	0.99	199,958	0.87	198,476	0.12	1.06	200,101	0.88	198,480	0.18
Linked to CPI	2.69	58,245	3.02	51,588	(0.33)	3.49	58,259	3.02	51,588	0.47
Foreign currency and linked to foreign currency	1.31	115,797	0.69	116,344	0.62	1.31	115,797	0.69	116,344	0.62
Total	1.35	374,000	1.12	366,408	0.23	1.52	374,157	1.12	366,412	0.40

(1) For details about fair value calculations and early maturity assumptions, see Note 20 to the financial statements.

In the non-linked NIS segment, the effective duration of assets exceeds that of liabilities by 0.12 years. Excluding these early maturity assumptions, the effective duration of assets exceeds that of liabilities by 0.18 years.

The difference between internal rate of return (IRR) of financial assets and IRR of financial liabilities in the NIS-denominated non-linked segment is 2.76%. Excluding these early maturity assumptions, the IRR for financial assets exceeds the IRR for financial liabilities by 3.29%.

In the CPI-linked segment, the effective duration of liabilities exceeds that of assets by 0.33 years. Calculation of the effective duration is based on assumptions with regard to early withdrawals of savings and loans. Excluding these assumptions, the effective duration of liabilities exceeds that of assets by 0.47 years.

The difference in the CPI-linked segment between IRR of financial assets and IRR of financial liabilities is 1.64%. Excluding the early maturity assumptions, the difference is 1.61%.

In the foreign currency sector, the duration to maturity of assets exceeds that of liabilities by 0.62 of a year. In this sector, most of the activity is in variable interest, linked to the LIBOR rate, and, therefore the duration to maturity in this sector is low. The assumption concerning early redemption of savings and loans in this sector has no effect on differences in duration or internal rate of return.

The difference between IRR of financial assets and IRR of financial liabilities is 1.85%.

Term to maturity – Below is evolution of Bank cash flow by term to maturity, as presented in detail in Note 18 to the financial statements.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2014, was 48% (as of December 31, 2013 - 50%), of which balance sheet sources for terms longer than 1 year - 57% (as of December 31, 2013 - 58%).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2014 are for terms of up to 1 year, constituting 96% of total foreign currency-denominated sources (as of December 31, 2013 - 89%), of which 29% are sources for terms longer than 3 months (as of December 31, 2013 - 28%).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of future transactions to divert excess liquidity between NIS and foreign currency and by term, as part of dynamic management of sources and uses.

Soliciting sources and Bank liquidity status - During 2014, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 141.2 billion on December 31, 2013 to NIS 152.4 billion on December 31, 2014, an increase of 7.9%.

In the non-linked segment, total deposits from the public amounted to NIS 98.5 billion, an increase of 6.1% compared to December 2013. In the CPI-linked sector, deposits from the public amounted to NIS 19 million, a decrease of 11.2% compared to December 31, 2013, and in the foreign currency sector – which accounted for most of the increase – deposits from the public rose to NIS 34.8 billion, an increase of 29.4% compared to December 2013.

Market risk associated with derivatives activities

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 trades in financial derivatives in the foreign currency, non-linked Israeli currency and CPI-linked Israeli currency sectors.

The trading in financial derivatives is mainly conducted in the Bank's trading room and is classified into three categories: hedging trades, trades for the purpose of asset and liability management (ALM) and other trades, as detailed in Note 1.R to the financial statements.

The Bank operates in credit derivatives (CDS) in its negotiable portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee.

The policies for managing the options portfolio are based on the "delta-neutral" strategy. The activities in options are subject to the quantitative limits prescribed by management, which include delta exposure (sensitivity of option price to change in price of the underlying asset), maximum VaR value for an investment of one day at an absolute level of 99% calculated by the Monte Carlo method and maximum losses under different scenarios.

The Bank operates, as part of its risk management system, a module which tests the VaR, sensitivity of option prices to changes in various parameters which determine its price (such as: price of underlying asset, standard deviation and interest rate), and the value of stress tests on the Bank's option portfolio. System VaR calculations are made hourly, intra-day.

The volume of transactions in financial derivatives according to the different categories is detailed in Note 19.E to the financial statements.

Operating risk

Operating risk is defined 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 on Legislation and Supervision of Bank Group Operations.

Operating failure events which occurred at financial institutions in recent years have increased legislator awareness and that of financial institutions to operating failure events and their main attributes, including:

a. Operating events may occur throughout the organization and are inherent to financial institution operations.
b. These events may result from an operating failure or may also be combined with other risk types, such as market risk, credit risk, liquidity risk, reputation risk etc.
c. A significant share of operating failures has very low probability but relatively large damage potential.
d. Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster, security event.

Operating risk is inherent by its nature, and exists throughout the organization. Bank management and the Board of Directors attach great importance to this risk, and take an integrative approach to handling and management of operating risk, as an integral part of the overall corporate culture, by implementing this culture by means of training, dissemination of related content and application of elevated standards of operating control at all levels. The operational risk manager for the Bank is the head of its Risk Control Division. The Bank approach is that responsibility for operating risk management lies primarily with managers and staff of the different lines of business.

On February 14, 2012, the Bank of Israel issues Proper Conduct of Banking Business Regulation 350 with regard to operational risk management (hereinafter: "Regulation 350"). This regulation became effective on January 1, 2013.

Bank policies with regard to operating risk states that this is a process which requires creation of an appropriate, enterprise-wide corporate culture in order to handle it. The policies addressees how risk is managed and regularly reviewed at the Bank via committees and forums, such as the Management Committee on this subject, tasked with development of plans, processes and procedures for risk management in all material products, activities, processes and systems of the Bank. The Stress Testing Forum at the Bank is tasked with specifying stress scenarios at different severity levels, in order to quickly identify events and malfunctions, and handle them so as to reduce their frequency and severity of the damage arising there from. The Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operating risk. Risk management is also achieved by means of the Internal Control Trustees forum, as well as a forum headed by Bank division managers, designed to handle such risk at division level. Concurrently, the Internal Control Forum, tasked with integrating multiple central control entities, including the Risk Control Division, the Compliance Department, Legal Division, Operating Risk, Process Engineering and Internal Audit units as observer.

At the end of 2011, the Board of Director's Risk Management Committee and Plenum approved a new policies document on internal controls, including extensive reference to Bank handling of operating risk. This document specifies the high-level principles for handling internal control aspects, and is based on the Basel Committee directive dated 1998. In late 2012, the Board of Directors' Risk Management Committee and the Board plenum approved an update to the policies document related to operating risk, as part of Bank preparations for implementation of Regulation 350. These policy documents, like other Bank policy documents, are updated annually or more frequently.

Another layer in the area of operating risk is that of internal audit, which acts independently. The operating risk policies specifies the role of Internal audit as the entity in charge of carrying out periodic audits of risk management processes, taking part in methodologies for capital calculation with respect to risk, involvement with fraud and embezzlement issues, data gathering, documentation, debriefing and reporting of events, participation as observer on committees and involvement with the Internal Control Forum. The policies also specifies the roles of different professional units and of branches.

In recent years, the Bank has prepared to put in place comprehensive infrastructure of processes and methods for handling operating risk. These preparations include, inter alia, the following:

- Deployment of a corporate culture, as determined by the Board of Directors and by Bank management, by means of training and instilling a supportive corporate culture throughout the organization.
- Putting in place an appropriate organizational structure for the Risk Control Division.
- Appointment of internal control trustees in branches and headquarters units.
- Assignment of a dedicated representative of the Risk Control Division in the trading room.
- Conducting risk surveys and establishing work plans to handle those risk factors identified.
- Quantitative data gathering and analysis with respect to actual monetary losses, using a custom system.
- Debriefing of and learning lessons from various events.
- Continuous improvement of Bank handling of fraud and embezzlement risk.

The Bank regularly conducts operating surveys to map these risk elements for most Bank departments. These reviews are one of the major tools used in identifying operating risk in order to mitigate it. Findings of these operating risk reviews, as well as reports of relevant events, are discussed by the Steering Committee on Operating Risk, headed by the Operating Risk Manager. The Bank is acting to eliminate gaps in cases where controls have been found wanting, in order to ensure that operating risk is minimized - based on priorities derived from the risk severity and likelihood and in line with decisions of the steering committee. The Operating Risk Department closely monitors progress made on required improvements and reports to the Steering Committee. Since then and in 2012, the Bank continued to conduct surveys which were integrated with process mapping and control review as part of application of provisions of the Sarbanes-Oxley Act (SOX). In early 2013, responsibility for the SOX process was re-assigned to the Accounting and Financial Reporting Division.

In 2013, the Bank started conducting operating risk surveys, which include mapping of business processes - a continuous process which should take 3 years. The risk surveys include a review of operating risk along with compliance risk and legal risk, utilizing the overall view and interactions between these risk factors. Currently, the Bank is reviewing a change in these surveys, in order to make them risk-focused, including a variety of tools: stress tests, KRI, analysis of relevant events at financial institutions in Israel and overseas, self-assessment processes at various departments etc.

As part of preparations for handling operating risk and for application of the Basel directives on this issue, the Risk Control Division gathers and identifies operating risk and loss / near loss events from all Bank units. The Risk Control Division operates a dedicated Operating Risk Management System for the Bank, used as a repository for managerial information and as a key tool for analysis and reporting of the level of operating risk at Bank business units. This system was expanded in recent years with additional internal control aspects, and additional models were developed for information security, internal audit and compliance.

The risk monitoring process at the Bank includes reporting of internal financial data, operating data, regulatory compliance data and external data with regard to events and conditions relevant to operating risk. These reports include regular reports made by the business units to the Risk Control Division, and integrated reporting routines to Bank management and to the Board of Directors.

Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. The most important step is to instill a corporate culture which promotes strong awareness of operating risk, and of deployment of risk-mitigating processes, as well as to implement operating procedures with regard to risk control and to deliver training to Bank employees. The Bank has developed a mechanism designed to empower internal control officers with tools for conducting lesson learning processes at their units, in addition to lesson learning processes regularly conducted by the Bank.

The Bank has established a policies and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure.

Mitigating operating risk via insurance - the Bank is insured under banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank obtains officers' insurance policies, which apply to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability.

Information security

In accordance with Proper Conduct of Banking Business regulation 357, the Bank appointed a Cyber and Information Security Manager, who reports to the Manager, Risk Control Division. The unit is in charge of setting 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. This includes regular mapping, analysis, management and assessment of all risk factors including gathering and processing of intelligence information and implementing processes and technologies to hedge and mitigate such risk. In addition, the Bank's Hybrid Banking sector is certified under the information security management standard ISO 27001. See also under chapter "IT and coumputers" above.

Business continuity

The Bank applies Proper Conduct of Banking Business Regulation no. 355. In 2014, the Business Impact Analysis (BIA) processes were refreshed and adjustments were made to the business continuity plan based on it.

The Bank diligently maintains and conducts a multi-year training and drill program which includes conducting technology-related drills and trials to test and improve the readiness and awareness of Bank management and employees to dealing with disaster scenarios.

Bank management and the Board of Directors have decided to implement a project for relocation of the Bank's primary data center to the Bank site in Lod and relocation of the secondary data center to the Bank facility in Ramat Gan - in order to improve site survivability in emergency scenarios and in view of amendments to Proper Conduct of Banking Business Regulations concerning protection of critical sites. Site relocation is expected to be completed in 2015. For further details see chapter on "IT and computers" above.

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 there to, 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 Bank operates based according to a compliance program approved by the Bank’s Board of Directors. The Compliance Officer, through the Compliance Department, acts to instill a compliance culture across the Bank and, in this context, to deploy the consumer directives applicable to Bank relations with its clients. This is done in order to reduce the probability of violation of laws and regulations and lead to discovery, as soon as possible, of such violations, and thereby to reduce the Bank's exposure to claims and other damage it may sustain as a result of these.

The Bank also maintains an effective enforcement program for securities law and for anti-trust law, adapted for the Bank and its unique circumstances, as part of overall risk management at the Bank. This is designed to ensure compliance with securities law and to avoid violation thereof. The Chief Enforcement Officer, through the Compliance Officer and the Compliance department, handles issues of Bank compliance with obligations arising from securities law in general and in accordance with the enforcement program in particular. The Chief Enforcement Officer is the person responsible, on behalf of Bank management, for on-going implementation of the enforcement program and its deployment across the Bank.

In addition, the Compliance Officer is responsible for management of cross-border risk, which may originate from enforcement agencies in foreign countries, which refer to Bank operations overseas or with overseas clients, and to ensure Bank compliance with requirements stipulated by US tax laws applicable to Bank Group operations outside the USA (FATCA - Foreign Account Tax Compliance Act).

The Compliance Department conducts compliance surveys on different issues and provides training to implement compliance policies at the Bank. The Compliance Officer is a member of different forums at the Bank, in order to ensure an enterprise-wide view of various compliance aspects. In order to ensure compliance with all statutory provisions, as noted above, the Compliance Officer maintains a control system in line with control plans. These controls are designed to verify compliance of Bank branches and departments with various statutory provisions, as well as the effectiveness of controls applied by the various business and headquarters departments.

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-intermediate	Manager, Business Division
Risk from quality of borrowers and collateral	Low-intermediate	
Risk from industry concentration	Low-intermediate	
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
Compliance risk	Intermediate	Manager, Risk Control Division
Anti-money laundering risk	Low-intermediate	Manager, Risk Control Division
Legal risk	Low-intermediate	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.

Description of methodology used by the Bank to estimate impact of different risk:

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 outcome thereof, 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 and in conjunction with discussion of the Bank’s 2015 work plan, 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 in 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 allows the Bank to monitor the level of its various risk exposures as well as the direction and volatility of its development .

Remuneration-related disclosure requirements in Basel Pillar 3

On June 10, 2014, the General Meeting of Bank shareholders approved, as recommended by the Remuneration Committee on April 29, 2014 and as approved by the Board of Directors on May 4, 2014, the officer remuneration policy at the Bank ("Officer remuneration policy"). This remuneration policy was approved following discussions by the Remuneration Committee of the Board of Directors, in order to align the officer remuneration policy, as approved by the General Meeting of Bank shareholders on August 27, 2013, as required by the Corporate Act, 1999 ("the original remuneration policy") with Proper Conduct of Banking Business Regulation no. 301A "Remuneration Policies at Banking Corporations".

In these discussions - both for approval of the original remuneration policy and for approval of the current officer remuneration policy - the Remuneration Committee, which consists entirely of external Board members (in conformity with the Corporate Act and with Proper Conduct of Banking Business Regulation 301 "Board of Directors"), was assisted by various advisors: The law firm of Meitar, Liqvornik, Geva, Leshem, Tal as legal counsel, as well as Ernst & Young and Professor Sharon Henes as economic advisors.

The officer remuneration policy applies to all Bank officers, including the Chairman of the Board of Directors, the Bank President & CEO, gatekeepers (Chief Accountant, Chief Internal Auditor, Chief Legal Counsel and Chief Risk Officer), vice presidents, CIO, Bank Secretary and Board members. In conformity with the officer remuneration policy, the Remuneration Committee and the Board of Directors approved the officer remuneration plan (with regard to the Bank President & CEO, his terms of employment and office, including the remuneration plan, which includes a monetary bonus and equity-based remuneration by allotment of option warrants by way of private placement, the General Meeting of Bank Shareholders approved those terms on June 10, 2014). As noted above, the remuneration plan distinguishes between business officers and gatekeepers, for whom a "monetary preservation bonus" was specified - which is not contingent on performance - and individual performance benchmarks were specified - which are independent of the business which they supervise.

Based on the remuneration principles specified by the Remuneration Committee and adopted by the Board of Directors, as reflected in the officer remuneration policy - the Remuneration Committee recommended and the Board of Directors approved in June 2014 a remuneration policy for all Bank employees other than officers ("the remuneration policy").

The remuneration policy specifies remuneration terms of all key employees at the Bank, those of other managers at the Bank and of other Bank employees for 2014-2016.

Key employees are defined, in the remuneration policy, as any employee reporting directly to Bank officers and all division and sector managers at the Bank - even if they do not report directly to Bank officers.

The group of key employees at the Bank, other than officers, consists of 53 managers, including 11 managers in subsidiaries.

The remuneration policy applies Group-wide; it also applies, *mutatis mutandis*, to Bank subsidiaries other than Bank Yahav - whose remuneration policy has been communicated to the Bank.

The objective of the remuneration policy is to ensure that remuneration of Bank employees, including key employees, would be consistent with the Bank's risk management framework, with its long-term objectives, with the Bank's strategic plan and its control environment, as well as with actual employee performance over the short, medium and long terms. Accordingly, the goals underlying the remuneration policy were: create an incentive structure for Bank employees which maintains a proper balance between fixed and variable remuneration components and which promotes effective, well established risk management which does not encourage risk taking beyond the Bank's risk appetite and allows the Bank to maintain a solid capital base; align remuneration incentives payable to Bank employees with the Bank's strategic plan, with long-term objectives of the Bank, with the Bank's results over time and with actual contribution of Bank employees to achieving such Bank objectives; alignment of Bank contracting with Bank employees other than officers, in order to create balanced conditions which do not jeopardize the robustness and stability of the Bank, as well as preserving senior Bank employees and ensuring, in as much as possible, the Bank's capacity to recruit high-quality managers in the future, allowing for organization-wide considerations such as cost of remuneration and desired remuneration gaps between various ranks of Bank employees, as well as the competitiveness in the banking sector, the Bank's size, scope of operations and nature of its business.

The terms of office or employment of Bank employees include fixed remuneration (primarily salary and benefits; the great majority of key employees are employed by individual employment contract) and variable remuneration, including indemnification, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

Variable remuneration for key employees and other managers includes a monetary bonus and long-term equity-based remuneration. Variable remuneration is designed to align the interests of managers and key employees with those of the Bank and to reinforce the link between the Bank's overall performance and the key employee's contribution to achievement of such performance, and the key employee's remuneration - with consideration of the Bank's risk profile.

Variable remuneration is objective-dependent and performance-dependent and as such, encourages key employees to generate economic value and to promote the Bank's medium-term and long-term objectives, while maintaining the Bank's risk management framework and risk appetite. Therefore, performance-based remuneration payable to key employees is contingent on Bank performance in the medium and long terms, considering the Bank's strategic plan - but would not encourage taking risks beyond the Bank's risk appetite and would maintain a proper balance between fixed and variable remuneration components.

Equity-based remuneration is typically awarded by way of options, granted in advance, in three annual lots - for each period of the remuneration policy, as described in the outline of offering to employees, as approved by the Board of Directors on June 19, 2014, as well as a capped monetary bonus, such that the total value of variable remuneration would not exceed 100% of the key employee's total fixed remuneration.

Key employees' eligibility for variable remuneration is contingent on fulfillment of all threshold conditions specified in the officer remuneration policy, in line with the officer remuneration policy, i.e.: Return on equity for the bonus year shall be at least 9%; Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations and, under special circumstances, should the return on equity be lower than 9% but the second condition is fulfilled - a special bonus of up to two monthly salaries may be awarded.

Eligibility of key employees to a monetary bonus is based on quantitative, company-wide criteria identical to those applicable for officers: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans. In addition, eligibility of key employees for a monetary bonus is based on qualitative criteria, consisting of individual performance benchmarks (specified annually, based on performance targets according to the work plan for each year) and which include objectives related to risk management and compliance as well as evaluation by their supervisors. The individual performance benchmarks for each key employee are based on the risks handled by each employee in their role. In addition, a threshold was specified for the evaluation criteria, below which the key employee would not be eligible for any annual monetary bonus. The individual performance benchmarks specified for managers, related to risk control and compliance, are related to development and implementation of risk monitoring mechanisms and to development and implementation of effective alerts to deviation from the definitions specified by Bank management and Board of Directors, as well as supervision and control of implementation of required statutory provisions, as the case may be. Individual performance benchmarks specified for managers involved in audits are related to the scope and quality of audits performed under their supervision with reference to coverage of major risk factors in their field, implementation of a clear professional policy in support of Bank objectives and deployment of high professional standards. These performance benchmarks are not contingent on performance of Bank business lines and units which they supervise or audit, as the case may be.

Eligibility of key employees for options, for each of the annual lots, would be determined based on the four Bank-wide benchmarks, as described above (for officers other than President & CEO or Chairman of the Board of Directors, the cumulative weighting of Bank-wide benchmarks is 80%, individual performance objectives are weighted at 10% and supervisor evaluation is weighted at 10%).

The Bank has specified steps ("minimum achievement", "target achievement", "maximum achievement"), the achievement of which would confer eligibility to receive variable remuneration at different rates.

In conformity with the employee offering outline, options have been allotted to officers, to other key employees and to other managers at the Bank and at Bank subsidiaries, with respect to the policy period ("the outline"). As for officers and key employees, the outline stipulates that the number of options for which they would be eligible with respect to each annual lot, would vest in three equal parts over three 18-month periods starting on three consecutive years as from the date of eligibility (one year after the financial statements for the year for which the lot has been allotted have been made public). Threshold conditions and steps have been specified with regard to eligibility for exercise in deferred periods, too.

In conformity with the remuneration policy, a key employee must reimburse, including by way of offset, any variable remuneration paid them - if paid based on data which turned out to be erroneous and were restated on the Bank's (consolidated) financial statements within three years following the end of the year for which the variable remuneration was paid, but no later than three years after termination of their employment by the Bank.

Furthermore, the remuneration policy stipulates - and option offerees have committed accordingly - that no private hedging arrangements may be entered into which would eliminate the effect of risk-sensitivity inherent in their remuneration.

As for managers other than key employees, the three lots awarded them would vest on the 1st, 2nd and 3rd anniversary (respectively) of the option award date and they may be exercised over a period of 4.5 years. Eligibility for options would be based on the Bank-wide criteria, which are identical for officers and for other key employees.

For officers not employed by individual employment contract and for all other Bank employees - the monetary bonus consists of a general bonus and individual bonus, based on their department and with due consideration to objectives for revenues, risk management, compliance, compliance with regulatory requirements and internal audit findings, public complaints and service quality to clients. In addition, the individual contribution of each employee and their supervisor's evaluation would be taken into consideration.

The Remuneration Committee of the Bank's Board of Directors, which is the primary entity which supervises remuneration at the Bank, held 13 meetings in 2014. Total remuneration paid to members of the committee in 2014 for attending committee meetings amounted to NIS 421 thousand.

Below is a summary of quantitative data for variable remuneration in 2014 (NIS in thousands)[(1)]:

	Officers		Key employees	
	Number of employees	Total	Number of employees	Total
Employees who received variable remuneration during the reported year	14	-	53	-
Guaranteed bonuses awarded during the reported year[(1)]	6	978	-	-
Signing bonuses awarded during the reported year	-	-	-	-
Severance pay paid during the reported year	1	1,805	-	-
Total deferred compensation balance as yet unpaid:				
Cash-based	6	978	-	-
Share-based instruments	13	6,034	53	4,095

Below is additional information about remuneration for the reported year (NIS in thousands)[(2)]:

Key employees

Total value of remuneration with respect to the reported year	Non deferred	Deferred
Fixed remuneration		
Cash-based	48,861	-
Variable remuneration		
Cash-based	8,430	-
Share-based instruments	-	4,095

Senior Officers

Total value of remuneration with respect to the reported year	Non deferred	Deferred
Fixed remuneration		
Cash-based	31,682	-
Variable remuneration		
Cash-based	1,929	1,994
Share-based instruments	-	6,034

(1) Deferred component of bonuses awarded during the reported period.
(2) Excludes Bank Yahav, which is not included in the Bank's remuneration policy. The Bank has been informed of Bank Yahav's remuneration policy.

Corporate accountability

Bank Mizrahi-Tefahot incorporates principles of corporate accountability in all its activities, based on the belief that a business enterprise in touch with the environment, operating within society and benefiting economically from their relationship, would be accountable for what is going on in its environment and would reinvest resources and efforts to benefit the community and the environment. The Bank manages its various interfaces with stake holders - with cooperation, dialog and striving to create mutual value in these areas: economic, social and environmental.

In May 2014, Bank management and the Board of Directors approved the corporate accountability policy and in July 2014, the Bank issued its first report on corporate accountability for the period 2012-2013. This report was approved by the Global Reporting Initiative (GRI) and was rated A+ for transparency (the highest rating).
This report describes operations of the entire Mizrahi Tefahot Group (including subsidiaries, Bank Yahav and overseas affiliates), was published in Hebrew and in English and is available on the Bank website. The report describes the Bank's activities, focusing on core issues related to corporate accountability and presenting those issues which are material for the organization. Accordingly, the report lists the variety of Bank activities with its stake holders, including: clients, employees, suppliers, the community and the environment. The report refers to multiple issues, including: promoting client interests, social and community involvement at the Bank, creating a proper, accountable work environment for Bank employees, environmental protection, maintaining proper corporate governance, ethics, risk management etc.

In 2014, the Bank started preparing for compiling the next report based on the GRI4 standard. The first stage consisted of dialog with internal and external stake holders aimed at defining the material issues to be reported by the Bank in the next report.

The Bank's Corporate Accountability Report is available on its website:
www.mizrahi-tefahot.co.il/en>> Corporate Responsibility

Social involvement and charitable donation

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

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

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

The Bank is working to realize social policies in a manner that expresses its strength, involves the Bank's employees in active volunteerism and leverages its physical, financial and human abilities and resources by means of "Mizrahi-Tefahot in the Community". This social brand is intended to differentiate the social activities of the Bank and to create identification among the Bank's employees and managers. The focused communal activities are carried out with the maximum collaboration of its employees and managers, geographic diffusion and diversification of activities, based on Bank locations, the existence of extensive partnerships with communal organizations throughout the country, and intensified intra-organizational and extra-organizational community involvement.

Contribution to the community has become a key objective on the agenda of Bank staff, with management providing incentives and encouragement to employees to take part in such activity.

Some 125 Bank branches have connections to different social organizations and institutions working on behalf of disadvantaged children and youth at risk, in communities in which branches are located. “Adoption” of these organizations is reflected by volunteer work by branch and headquarters staff, assistance and mentoring while providing assistance to the populations they treat, and providing financial assistance – Bank donations for purchase of products to benefit the children and youth.

In 2014, the activity in the field was expanded significantly, by branches and Head Office units that have forged ties with suitable organizations in the community, and activities with organizations already adopted by the Bank were intensified.

The Bank initiated a variety of activities to benefit under-privileged children and youth:

- "ZAZIM" – youth movements for the community. The project goal is to encourage youngsters and members of youth movements, to act and volunteer for the society and community in which they live.
- The Bank has developed its "Money Road" training kit, which provides youth with training on financial issues. This software is available on the Bank website, to assist a wider audience of teachers, instructors and counselors to learn the content of this package and to train youngsters in the content listed in this package.
- "Shenkar Flowers" – Promoting teenagers with artistic skills from a low socio-economic background, training them over the school year, through students from Shenkar College.

- Community activity in Lod - the Bank intensified its involvement in this city, with the Bank and its staff helping in financing and carrying out significant social projects in the city. As part of this involvement, the Bank sponsored the creation of Melodica, a municipal youth center in Lod, together with the Lod municipality and the Lod Foundation.
- "Me for you" - an educational program for social entrepreneurship, volunteer work and empowerment of youth, especially those of limited means, in co-operation with LATET NGO.

The Bank also sponsored various benefits for children at risk, including:

- Realizing dreams and wishes of children with severe illness, together with Heartwish foundation and Bank employees; Together with Zichron Menachem foundation, which cares for children with cancer, the Bank held a fun day in Eilat for 150 sick children, with financing and assistance from Bank employees; A field trip for girls from the Ethiopian community in Jerusalem; A fun day for children suffering from cancer and their families, who are assisted by Ezer MeZion.

The Bank intensified links with institutions of higher education, by co-operating with the Management College in establishing a banking track, sponsored by the Bank, delivering lectures to students by volunteer employees and managers and by providing scholarships for students in need of assistance at several universities and colleges.

In conjunction with Bank assistance to non-profits who employ people with special needs, the Bank holds several events designed to help these non-profits increase their revenues by enhancing public awareness of the important social endeavors of these non-profits and to help in gaining exposure for their following products:

- The Bank upgraded a unique website, "Added Value", was issued, listing community and environmentally-friendly products produced in community organizations by people with special needs, and by organizations which promote and distribute green products in support of the environment.
- The "Heart-felt creation for the community" fair took place, with 30 non-profits participating in order to expose their products to extensive audiences and to allow the non-profits to sell their products to tens of thousands of fair visitors.
- The Bank promotes an organizational culture which encourages its employees to purchase gift items for their own needs, in addition to purchases made by the Bank from these non-profits.
- The Bank held a seminar for managers of social NGOs designed to provide them with managerial tools, to improve their management skills.

In order to expand the range of partners in these activities, the Bank initiates projects to add additional stakeholders -

- Employees and family members - the Passover Walk and the popular race of the Jerusalem Marathon, conducted in cooperation with the Israel Cancer Society.
- Clients – continuation of project "Partners by Choice" to include Bank clients in the designation of charitable donations to social organizations focused on helping children and youth, to whom the Bank provides support for social ventures. Upon conclusion of the project, the Bank's charitable donation was divided among 8 organizations selected by the clients. The Bank also encourages clients to purchase products from these organizations, by providing a discount to Bank clients.

Below is a list of new ventures carried out by the Bank in 2014:

- Together with the Israel Association of Community Centers, the “Money Road” training was transalated into Arabic to make it easier for Arab youths to attend this program. Some 25 program counselors have been trained in delivering "Money Road" training to Arab youths.
- To this end, the training kit was translated into Arabic in order to make it easier for Arab youth to study this program.
- During Operation Protective Edge, the Bank assisted children who spent time in bomb shelters. To this end, the Bank joined forces with NGOs operating in the Southern region.
- The Bank's "Voting is influencing" project invited Bank employees to vote for NGOs which employ and assist at-risk youth, which are listed on the "Added Value" website. The 5 NGOs selected by Bank employees received financial contributions for holding joint projects with the Bank.
- As part of Bank support for social enterprises which employ and promote people with special needs, the Bank joined forces with IVN, an organization involved with social entrepreneurship and investment, in order to assist social business ventures at the outset and to help them grow into profitable social business ventures with their own revenue stream.
- As part of the Bank's activities to benefit NGOs that employ people with special needs, the Bank launched its "Added Value gifts etc." shop, located in Dizengof Center, Tel Aviv. This shop sells products, gift items and gifts made by people with special needs. The shop is sponsored by the Bank and is managed by the "All Good" NGO, employing the mentally destitute as sales staff - in order to provide them with training for a job on the free market.
- The Mizrahi Tefahot grove was planted at Dudaim Forest in the South, as part of the Bank's contribution towards repairing the damage caused by the Carmel forest fire.

Bank branches are an integral part of the local communities in which they operate. In order to reinforce these relationships, the Bank has developed a project, together with local communities named "Let us meet at Mizrahi Tefahot". Following the successful pilot in 2013, this project was expanded in 2014. As part of this project, various Bank branches hosted lectures and activities on various topics - both financial and of general interest. These activities were open to the public at no cost, subject to advance registration.
In 2014, the Bank Group allocated NIS 8.3 million to social involvement and charitable donation, compared to NIS 7.9 million last year. In addition, Bank employees and managers invested in 2014 labor valued at NIS 4.3 million (in 2013 – NIS 4.2 million) in community work on different projects.

Overall, investment in social and community activities at the Bank in 2014 amounted to NIS 12.6 million, compared to NIS 12.1 million in 2013.

Disclosure concerning the Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name	Galit Weiser
Start of term in office	July 2011
Education	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Corporations Act, 1999 - the Internal Auditor is not an interested party of the corporation, an officer or relative thereof.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Bank Yahav and Auditor of Bank Mizrahi-Tefahot subsidiaries. Furthermore, the Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor.

In conformity with Proper Conduct of Banking Business regulation 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2014, the Internal Auditor is eligible to receive 274,835 options to buy Bank shares. For further details, see Note 16.A. to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived.

Considerations in determining the multi-annual audit plan

- Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.
- Risk surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel II directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan is prepared by the Internal Auditor, brought up for discussion by the Board of Directors' Audit Committee and sent to the Bank President. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.
Accordingly, on January 19, 2015, the Board of Directors approved the Internal Audit work plan for 2015-2018.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used asa basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks and the Audit Committee. In addition, the audit refers to issues as requested by Bank management.
Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.
Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.
Accordingly, on January 19, 2015, the Board of Directors approved the Internal Audit work plan for 2015.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With respect to this company, the Internal Auditor verifies that there is proper internal auditing.

At Bank Yahav, a separate audit plan is submitted to the Bank Yahav Board of Directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions for employees reporting to the Internal Auditor in 2014, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1)46	6	(2)2.5

(1) Includes 6 full-time positions for audit at Bank Yahav. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 2 full time positions.

(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit.

Access to information

The Internal Auditor received complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Regulation 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits of subsidiaries and overseas operations, auditors are also given full access as stated above.

Submitting report on Auditor's findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. Audit reports are submitted in writing. Once every six months, the Auditor submits to members of the Audit Committee the list of all reports submitted during the six-month period. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The significant reports, at the request of the Bank President & CEO or the Chief Internal Auditor, are discussed in a forum headed by the Bank President & CEO or attended by Bank management. The Chairman of the Audit Committee, in consultation with members of the Audit Committee and with reference to recommendations made the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

On July 15, 2014, a semi-annual list was distributed in conjunction with reporting the performance of the Internal Audit work plan for the first half of 2014. This report was discussed by the Audit Committee at its meeting held on August 10, 2014. The annual summary report of internal audit work for 2014 was issued on February 19, 2015 and is scheduled to be discussed by the Audit Committee close to the issue date of the financial statements. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are meant to realize the objectives of internal auditing.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2014: Salary amounting to NIS 1,298 thousand, bonuses amounting to NIS 642 thousand (including NIS 223 thousand with respect to 2013, approved in 2014 and including a preservation bonus amounting to NIS 172 thousand), social benefits amounting to NIS 428 thousand, bonus with respect to share-based payment amounting to NIS 680 thousand and other benefits valued at NIS 77 thousand. Total remuneration paid to the Internal Auditor or provided for in 2014 amounted to NIS 3,125 thousand. The outstanding balance of loans at standard terms, as of the end of 2014, amounted to NIS 44 thousand.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Accounting Policies on Critical Matters

The consolidated financial statements of the Group are prepared in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of annual financial statements of a banking entity. The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

Provided below are accounting policies on critical matters:

Provision for credit losses is made as from January 1, 2011 in accordance with public reporting regulations of the Supervisor of Banks, which are based on US accounting standards codification ASC 310 and on positions issued by US supervisory authorities, as adopted by the Supervisor of Banks. The provision for credit losses is made in one of two tracks: an individual provision and a group provision, which also includes the provision for the housing loan portfolio based on a formula for extent of arrears. See Note 1.I to the financial statements for details. The individual provision for credit losses is calculated based on public reporting regulations of the Supervisor of Banks, based on estimates by Bank management, with regard to expected cash flows and their dates , with respect to debt in excess of NIS 700 thousand. The expected cash flows would be received from different repayment sources of the debtor, including their business operations, private repayment capacity of the borrower, realized collateral provided to secure the credit, or guarantees provided by the borrower or by any third party. The provision for credit losses is the difference between the carrying amount of the debt and the value of expected cash flows, discounted using the effective interest rate of the original debt. Any debt constituting "final loss" should be written off no later than as provided in regulations. In cases where collateral is the exclusive source for debt repayment, value measurement is based on the fair value of collateral and the carrying amount of the debt is in excess of the fair value of collateral is written off against Expenses with Respect to Credit Losses. The actual losses could turn out to be different than the specific provisions made.

Group provision for credit losses - is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, as determined by the Bank) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses from debts based on a group estimate, except for housing loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is calculated based on rules stipulated in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereinafter "FAS 5"), based on guidelines specified in the Public Reporting Regulations. The formula is based on past loss rate by economic sector, divided into troubled and non-troubled credit, for the 5 years ended on the reporting date, past loss rates reflecting net accounting write-offs actually recognized in these years (as from January 1, 2011) or provision rates with respect to the average debt balance.

The Bank uses the loss rate which is the average of past loss rates within the aforementioned range of years. In addition to the average of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision with respect to loans to the public, the Bank also accounts for other data (qualitative adjustments), including trends in credit volume for each sector as well as sector condition, macro-economic data and general quality assessment of credit to each economic sector.

On January 19, 2015, the Supervisor of Banks issued a circular updating the Public Reporting Regulations with regard to the group-based provision for credit extended to individuals.

This regulation also includes provisions with regard to calculating the group-based provision in other economic sectors (the credit loss rate is to be calculated for each economic sector based on past losses over five years).

Furthermore, other than credit risk due to receivables with respect to bank credit cards with no interest charges, the Bank is required to maintain the rate of qualitative adjustments to the group-based provision for consumer credit at no less than 0.75% of the balance of non-troubled consumer credit. Guidelines in this circular would be applied prospectively.

As stipulated in the circular, the Bank adjusted the group-based provision with respect to credit to individuals and is preparing to develop and apply a calculation method for the group-based provision which accounts for a qualitative adjustment coefficient, as required by the guidelines. In total, the additional qualitative adjustment to the group-based provision with respect to credit to individuals, charged to Expenses with Respect to Credit Losses on the 2014 financial statements, amounted to NIS 54 million before tax. After the qualitative adjustment has been applied, as per the guidelines, the total qualitative adjustment at the Bank is at 0.75% and at Bank Yahav - at 0.5%.

In conformity with guidelines set in the interim directive, as from January 1, 2011 the Bank does not maintain a general and additional provision, but rather continues to calculate the additional provision and verifies that in each case, the group-based provision amount at the end of each reporting period is no less than the general and additional provision amount.

The minimum provision with respect to housing loans is calculated using the formula specified by the Supervisor of Banks, considering the extent of arrears, such that the provision rate increases with the extent of arrears. Upon the start date of application of the new directive, the amendment to appendix to Proper Conduct of Banking Business Regulation 314 "Troubled debt in housing loans at mortgage banks" became effective, expanding the scope of calculation of the provision by extent of arrears to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Conduct of Banking Business Regulation no. 329, as per the Supervisor of Banks' letter dated March 21, 2013 "Update to guidelines with regard to residential real estate".

In conformity with the directives, guidelines with regard to calculation of the group-based provision for credit losses with respect to housing loans were updated as described below.

In conformity with the Supervisor of Banks' directives, the Bank is required to review, and update as needed, the method for determining the group-based provision for credit losses with respect to housing loans. When reviewing the method, all factors which impact the likelihood of collecting these loans should be taken into consideration. The Bank is also required, as from the second quarter of 2013, to ensure that the group-based provision for credit losses with respect to housing loans shall not be less than 0.35% of the balance of these loans (excluding housing loans provided for by extent of arrears or on individual basis).

Pending application of the new directives as stated above, the balance of the group-based provision with respect to housing loans is derived from the increase in current loans awarded, compared to the past.

The initial adjustment of the group-based provision for credit losses with respect to housing loans, to 0.35%, included on the financial statements for 2013, amounted to NIS 191 million before tax and is regularly updated.

Derivatives are treated and presented based on US accounting standards codification ASC 815 and ASC 820. According to the guidelines, all derivatives are stated in the balance sheet at fair value. FAS 157 (ASC 820) defines fair value, and prescribes a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:

Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as set forth under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 - fair value measured by using non-observed data.

The Bank evaluates whether markets on which financial instruments are traded are active, based on the following parameters: Volume and value of transactions conducted on the market, current bid/ask spread and alignment of prices for similar transactions on the same market.

According to the standard, the non-performance risk should be reflected in estimating the fair value of debt, including derivatives, measured at fair value. The Bank estimates credit risk for derivatives using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk element compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

See Note 1.S to the financial statements for additional information. For details of derivatives measured at fair value by different fair value levels - see Note 20 to the financial statements.

Securities in the portfolio held for trading and in the portfolio of available for sale securities are stated at fair value, in accordance with the public reporting guidelines of the Supervisor of Banks. Securities classified in the portfolio held to maturity are measured at amortized cost. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. The Bank uses internal models for

reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. The fair value calculation was validated by the Bank's Risk Control Department, which does not participate in the fair value calculation process, assisted by an external professional consultant specializing in models for calculating fair value of financial instruments.
Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and the application thereof; and independently reviewing the model in comparison with other models, to the extent possible.
For details of securities measured at fair value by different fair value levels - see Note 20 to the financial statements.

The financial statements as of December 31, 2014 include critical estimates with regard to other-then-temporary impairment of several investments in securities, with a total original investment cost of USD 39 million (NIS 152 million). Total impairment recognized as other-than-temporary in nature as of December 31, 2014 amounted to USD 38 million (NIS 148 million). For estimating such impairment, the fair value of investments was calculated based on market prices quoted on the major market. In conformity with regulations and directives of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of such securities is other-than-temporary in nature. It is assumed that impairment compared to deviation of the original investment is not of a temporary nature, primarily in view of the significant decrease, the duration in which the quoted value has not increased, and the erosion of investments' safety cushions. The value of these investments in financial statements for December 31, 2014 is USD 1 million (NIS 4 million).
The actual value of these investments may turn out in the future to be materially different from the aforementioned estimate. The extent of the impact on future financial statements may range from recording a further expense amounting to USD 1 million (NIS 4 million), should it emerge that the investment value continued to decline, to recording further revenue amounting to USD 38 million (NIS 148 million) should it turn out that the full impairment was temporary.
The Bank has specified a validation procedure for fair value of instruments measured at fair value on a recurring basis on the financial statements, for which the Risk Control Division is responsible. The validation process includes review of the process for determining fair value, of the assumptions included in this process and the models used for calculation. The validation process refers to both the pure fair value, calculated at relevant market conditions according to standards, and to the credit risk element included in fair value.

Liabilities for employee rights are calculated according to actuarial models, based on the discount rates prescribed by the Supervisor of Banks. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. Pursuant to the Supervisor of Banks' directive, the discount rate used in actuarial calculation for retired employees choosing a pension is 4%.
Group liabilities for employee rights calculated based on an actuarial model amount to NIS 779 million. (Including a provision for employee retirement at beneficial terms).

The following is a sensitivity analysis of the total provision for employee rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	A 0.25% increase in discount rate	A 1% change in annual payroll increase rate		A 5% change in departure before retirement age		A 10% change in average benefit per retiree receiving benefits	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Severance pay provision	(6)	26	(22)	10	(10)	3	(3)
Budgetary pension	(4)	-	-	-	-	-	-
Bonuses	(2)	-	-	-	-	-	-

For information about adoption of accounting rules in the USA with regard to employee rights and their expected impact on Bank capital as of January 1, 2015, see Note 1.AA.1 to the financial statements.

Share-based payment transactions – The financial statements include the benefit value of the stock option plan for the Bank President & CEO and for Bank managers, estimated based on the opinion of an expert external consultant, using generally accepted models, including the Black & Scholes, binomial and Monte Carlo models based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's shares and other factors which could affect the economic value of the benefit.

The benefit value is recognized by the Bank over the vesting term of the options using accelerated amortization. See also Note 16.A to the financial statements for details.

The actual benefit value upon exercise of the options is a deductible expense by the Bank for tax purposes, and is subject to payroll tax. The total allowed expense for tax purposes, for which the Bank would record a tax benefit in the profit & loss statement shall not exceed the original benefit value upon option grant. Any tax benefit exceeding this amount would be charged directly to equity.

Some of the Bank's stock option plans include multiple lots which vest on specified dates. The number of options which the offerees may actually exercise, will be primarily based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 14.5%, as well as on other parameters (for details see Note 16.A to the financial statements), based on the exercise eligibility formula, as statedh in the option plan. As of December 31, 2014, the number of options which each offeree may exercise has been adjusted based on actual parameters for each year of the plan. Consequently, the total benefit value, charged on the financial statements to payroll expenses, whose balance (not yet recognized as payroll expenses) as of December 31, 2014 amounted to NIS 31 million.

Changes to management estimates, to actual return on equity or to other parameters, as noted, compared to the original estimate, would impact the number of stock options which would be granted and consequently - the payroll expense. The total benefit value as listed above may decrease to NIS 9 million, or may increase to NIS 47 million at most.

Provision for legal claims – The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 19 D for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Provision for impairment of non-financial assets is made in accordance with IAS 36 “Impairment of Assets”. Provision for impairment, if needed, is based on assessor valuations updated by the assessor or valuator as required.

Deferred taxes - Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred tax are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

The consolidated balance sheet as of December 31, 2014 includes deferred taxes, net amounting to NIS 765 million (excludes deferred taxes with respect to securities, which do not affect the provision for taxes). An increase of 1% in tax rates would cause a decrease of NIS 21 million in the provision for taxes. With respect to tax uncertainties, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Taxes Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

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 itemized in the Board of Directors' report below. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as specified 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 below.

The process of provision for credit losses is a methodical process, whereby results of discussions by various sub-committees which handle troubled debt and the Bank's credit exposure, are consolidated under a committee headed by the Chief Accountant. This committee has the following members: Manager, Business Division (credit risk manager); Manager, Retail Division; Manager, Risk Control Division (CRO); relevant sector managers and other credit professionals. The committee discusses classified clients individually. The outcome of such discussion determines the anticipated provision rate and the required qualitative adjustments to group-based provision rates reported to the committee and the actual rates. The Bank also operates a Provision for Credit Losses Committee headed by the President. This committee further discusses individual classification and provisions for major clients and determines the appropriateness of the total provision for credit losses, including group-based provisions. The committee headed by the President includes the Manager, Business Division (credit risk manager); Manager, Retail Division; Manager, Finance Division; Chief Accountant; Manager, Risk Management Division (CRO), 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, 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 chapter "Board of Directors" below).
The Audit Committee discusses the appropriateness of disclosure in 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, so 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 relevant 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 a 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.

Independent Auditors' report

The Independent Auditor, in their review, has drawn attention to Note 19.D.11.A-C) to the financial statements, with regard to claims filed against the Bank, including claims accompanied by motions for class action status and the DOJ inquiry in the USA with regard to Bank Group business with US clients.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on the US Sarbanes-Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the public reporting directives of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

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 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 annual report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

During the quarter ended December 31, 2014, 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 controls over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, starting with financial statements as of December 31, 2008, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

The Code of Ethics

Full transparency is a prerequisite of corporate governance, and in particular as relates to efficient risk management. Policies of proper disclosure of events, support processes and appropriate organizational structure create regular work interfaces which support the Board of Directors and allow it to discharge its duties. In order to perform the foregoing with due professional approach, the organization promotes an "internal control culture". This means that the Bank's Board of Directors and management promote, throughout the organization, a high level of ethics and integrity, to be disseminated by the following means:

- Effective communication channels to ensure messages with regard to ethics, integrity and the importance of internal audit are conveyed from the Board of Directors and executive management to all Bank staff.
- Personal example set by senior management.
- A written code of ethics, with documentation of all employees having read it and confirmed it.
- Supervisory mechanisms to ensure staff compliance with requirements and rules of conduct.
- Mechanisms to promote reporting of suspected improper actions.
- Enforcement mechanisms against those in breach of the code of conduct.

The Bank's Code of Ethics was written following over one year of meetings and discussions, attended by many Bank managers and staff. Definitely, acquiring a ready-made code of ethics from external ethics experts would have shortened this process - but this would have missed the main objective of this code: to accurately and authentically reflect the Bank Spirit and its organizational culture, as reflected by its management and staff.

The process of writing the Code, based on analysis of events from the field, and deploying its values, has prepared the ground for integrating the Code in day-to-day activities as a way of life, using its values to face issues and dilemmas arising from the business routine.

On November 24, 2008 the Bank's Board of Directors approved the values of the Code of Ethics which is binding on the organization as a whole and on each employee and manger individually.

To ensure that Ethics remain constantly effective and highly actual, the Bank established an Ethics Committee, headed by the Bank Secretary. The committee includes representatives from headquarter units and branches. The committee assisted in deployment of the Code of Ethics, in 2009, when all Bank employees and management attended workshops for deployment of the Code of Ethics, after which each staff member signed the Code of Ethics. Upon completion of the deployment process, the Code of Ethics was published on the Bank website. The Ethics Committee convenes monthly and continues to regularly deploy the code by publishing dilemmas to Bank staff, discussing dilemmas raised from the field and reviewing the deployment process of the Code of Ethics.

In 2010, a portal dedicated to the Code of Ethics was created on the intranet including, inter alia, reports from Committee meetings, dilemmas and professional articles in this field. This portal provides another channel for reporting ethical dilemmas. Moreover, in 2012, in addition to regular activities, a management conference was held on the topic of improvement and development of skills for handling complex ethical dilemmas. In his opening address to this conference, the Bank's President & CEO commented on the connection between the Bank's strategic plan and its Code of Ethics values. In addition, an ethics conference was held at the Financial Division, attended by managers of overseas affiliates - further to training delivered at these affiliates.

In 2013, Bank units continued to deploy the Code of Ethics, using various tools, in accordance with the work plan.

After five years of work on the Bank's Code of Ethics, in 2013 the Bank launched an activity to review the effectiveness of Code deployment across Bank units.

This process included the following:

- Focus groups conducted with Bank employees.
- A survey, consisting of several questions, designed to assess respondent views on the success of deployment of the Code.

The survey was completed by a sample of over 400 Bank employees (with / without direct reports, in headquarters and in branches).

In 2014, training was delivered to middle management at headquarter departments and to branch managers, in order to reinforce the status of managers as ethics leaders in their departments and to provide them with tools for dealing with ethical issues.

The management training was supervised by members of the Ethics Committee and included presentation of milestones in development of the Bank's Code of Ethics and analysis of an ethical dilemma based on the seven-step model.

The second part of the workshop consisted of an experiential exercise involving discussion of an ethical dilemma.

In conjunction with the 2015 work plan, a cross-unit "annual ethics day" would be held, a cross-unit activity by which various Bank units would be exposed to ethical dilemmas faced by other Bank units.

The Bank will also continue to hold focus groups and will conduct another survey to assess the progress of the process of deployment of the Code of Ethics among Bank employees.

Executive Management

Below is a listing of Executive Management Forum members as of December 31, 2014 with their title and position:

Eldad Fresher	President & CEO	
Menahem Aviv	Vice-President	Manager, Accounting & Financial Reporting Division and Chief Accountant
Israel Engel	Vice-President	Manager, Retail Division
Ayala Hakim	.	Manager, Mizrahi-Tefahot Technology Division Ltd. and CIO
Moshe Lari	Vice-President	Manager, Financial Division and Chief Financial Officer (CFO)
Nisan Levi	Vice-President	Manager, Planning, Operations and Customer Asset Division
Ofir Morad	Vice-President	Manager, Business Banking Division
Dinah Navot	Vice-President	Manager, Marketing, Promotion and Business Development Division
Doron Klauzner	Vice-President	Manager, Risk Control Division and Chief Risk Officer (CRO)
Rita Rubinstein	Vice-President	Manager, Human Resources and Administration Division
Galit Weiser		Chief Internal Auditor; Manager, Internal Audit Division
Dr. Shimon Weiss(1)		Chief Legal Counsel; Manager, Legal Division
Maya Feller		Corporate Secretary
Benny Shoukroun		Bank Spokesman

(1) On December 31, 2014, Dr. Shimon Weiss concluded his term in office as Chief Legal Counsel to the Bank and as Manager, Legal Division - upon his retirement. As from January 1, 2015, Attorney Racheli Friedman serves as Chief Legal Counsel to the Bank and as Manager, Legal Division.

Senior Officers

Below are details of senior officers who are not members of the Bank's Board of Directors:

Eldad Fresher	
Start of term in office	November 3, 2004 (August 16, 2013 - as Bank President & CEO)
Title	President & CEO
Position held in banking corporation / subsidiary	President & CEO Chairman, Mizrahi Bank Switzerland
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration – Hebrew University, Jerusalem; MBA – Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Financial Division - CFO and Market Risk Manager at Bank Mizrahi-Tefahot Ltd.

Menahem Aviv	
Start of term in office	April 13, 2005.
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Accounting & Financial Reporting Division and Chief Accountant Board member of Mizrahi Tefahot Issue Company Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Tel Aviv University; MBA – Tel Aviv University; CPA
Business experience (in past 5 years)	Chief Accountant, Bank Mizrahi-Tefahot Ltd.

Israel Engel	
Start of term in office	January 1, 2005.
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division Board member of Bank Yahav; Board member of Tefahot Insurance(1)
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Bar Ilan University; MBA (Finance) – Bar Ilan University; CPA
Business experience (in past 5 years)	Manager, Retail Division - Bank Mizrahi-Tefahot Ltd.

(1) Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Galit Weiser[1]	
Start of term in office	July 7, 2011.
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor; Manager, Internal Audit Division Chief Internal Auditor, Bank Yahav and of the following companies: Etgar, Ne'emanut, Mizrahi Tefahot Issuance, Netzivim, Tefahot Insurance[2].
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University), CPA.
Business experience (in past 5 years)	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

Shimon Weiss[3]	
Start of term in office	October 2, 1999
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel Legal risk manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	LL.B. – Hebrew University, Jerusalem; LL.M. – Hebrew University, Jerusalem; Dr.Jur. – Hebrew University, Jerusalem; MBA – Tel Aviv University
Business experience (in past 5 years)	Chief Legal Counsel, Bank Mizrahi-Tefahot Ltd.

(1) In conformity with provisions of Section 146(b) of the Corporate Act, 1999, the Internal Auditor is not an interested party in the corporation, is not an officer thereof nor a relative of any such person.

(2) Etgar – Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.
Ne'emanut – Mizrahi Tefahot Trust Company Ltd.
Mizrahi Tefahot Issuance - Mizrahi Tefahot Issue Company Ltd.
Netzivim – Netzivim Assets and Equipment Ltd.
Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

(3) On December 31, 2014, Dr. Shimon Weiss concluded his term in office as Chief Legal Counsel to the Bank and as Manager, Legal Division - upon his retirement. As from January 1, 2015, Attorney Racheli Friedman serves as Chief Legal Counsel to the Bank and as Manager, Legal Division.

Senior officers - continued

Ayala Hakim	
Start of term in office	July 1, 2013.
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Mizrahi-Tefahot Technology Division Ltd.; CIO for the Bank
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Political Science – Bar Ilan University; Graduate degree in Business Administration – Bar Ilan University;
Business experience (in past 5 years)	Lt. General, Commander, LOTEM unit of IDF Computer Corps

Moshe Lari	
Start of term in office	November 8, 2009 (in current position - August 16, 2013)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Finance Division – CFO and Market Risk Manager Chairman, Mizrahi Tefahot Issue Company Ltd.; Board member, Bank Yahav
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting - Hebrew University, Jerusalem; Graduate degree in Business Administration - Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Planning, Operations and Customer Asset Division at Bank Mizrahi Tefahot Ltd.

Nisan Levi	
Start of term in office	February 2, 2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Planning, Operations and Customer Asset Division Chairman, Tefahot Insurance(1); Chairman, Mizrahi Tefahot Trustees Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting - Hebrew University, Jerusalem; Graduate degree in Business Administration - Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Manager, Finance Division at Bank Jerusalem Ltd. Manager, Risk Division and Chief Risk Officer at Bank Jerusalem Ltd.

(1) Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Ofir Morad	
Start of term in office	January 1, 2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Corporate Banking Division and Credit Risk Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration; Graduate degree in Industrial Engineering.
Business experience (in past 5 years)	Deputy Manager, Business Banking Division at Bank Mizrahi Tefahot

Dinah Navot	
Start of term in office	April 1, 2012
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Promotion and Business Development Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undegraduate degree in Social Work, Tel Aviv University; graduate degree in Journalism and Media, Bar Ilan University; graduate degree in Social Psychology and Sociology, Bar Ilan University
Business experience (in past 5 years)	VP, Marketing with HOT Communication Systems; VP, Marketing with Careline - Prigo Israel

Maya Feller	
Start of term in office	April 20, 1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Corporate Secretary
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree Humanities – Tel Aviv University
Business experience (in past 5 years)	Secretary, Bank Mizrahi-Tefahot Ltd.

Senior officers - continued

Doron Klauzner	
Start of term in office	November 8, 2009.
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Risk Control Division, CRO.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration - Bar Ilan University
Business experience (in past 5 years)	Manager, Business Banking Division at Bank Mizrahi Tefahot Ltd.

Rita Rubinstein	
Start of term in office	January 1, 2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Resources and Administration Division Chairman, Mizrahi-Tefahot Security Services Ltd.; Chairman, Netzivim Assets and Equipment Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities and Social Sciences – Hebrew University, Jerusalem; MA in Humanities and Social Sciences, Bar Ilan University
Business experience (in past 5 years)	Manager, Human Resources and Administration Division at Bank Mizrahi-Tefahot Ltd.

Changes in 2014

On January 1, 2014, the following appointments became effective:

- Mr. Doron Klauzner started his term in office as Manager, Risk Control Division and CRO with the Bank. Previously, Mr. Doron Klauzner had served as Manager, Business Banking Division.
- Mr. Ophir Murad started his term in office as Manager, Business Banking Division.

On February 2, 2014, Mr. Nissan Levi started his term in office as Manager, Planning, Operations and Customer Asset Division.

On May 29, 2014, the Bank's Chief Legal Counsel, Dr. Shimon Weiss, announced he would be concluding his term in office upon retiring, on December 31, 2014 The Bank decided to appoint Attorney Racheli Friedman to the position of Chief Legal Counsel of the Bank.

On December 31, 2014, Dr. Shimon Weiss concluded his term in office as Chief Legal Counsel to the Bank and as Manager, Legal Division.

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

Details of senior officer remuneration[1]

(NIS in thousands)

												All of 2014
Details of remunerated party[2]		Remuneration for services rendered[3]								Loans granted at beneficial terms[4]		Loans granted at standard terms
Name	Position	Salary	Bonuses[16]	Social benefit contributions[5]	Share-based payment[6]	Value of additional benefits[7]	**Total before reserve supplement to provisions**	Supplement to provisions for social benefits due to changes in salaries during the current year	Total	Balance as of December 31, 2014	Average term to repayment (in years)	
Moshe Vidman[8]	Chairman of the Board of Directors	2,344	*1,627	807	-	143	**4,921***	-	**4,921**	499	5.0	-
Eldad Fresher[9]	President & CEO	2,835**	926	977**	1,543	147	**6,428****	2,558	**8,986**	-	-	40
Ophir Morad[10]	Vice President, Manger,Business Division	1,111	430	902	724	88	**3,255**	2,296	**5,551**	764	2.1	208
Dina Navot[11]	Vice-President, Manager, Marketing, Advertising and Business Development Division	1,122	493	463	1,075	74	**3,227**	-	**3,227**	412	4.3	40
Moshe Larry[12]	Vice President, Manger, Finance Division	1,131	515	427	947	83	**3,103**	-	**3,103**	1,029	13.3	69

* **Includes a bonus amounting to NIS 1,016 thousand with respect to 2013, approved in 2014. Total remuneration of Mr. Moshe Vidman for 2014, excluding the bonus for 2013, amounted to NIS 3,905 thousand.**

** **Includes salary amounting to NIS 448 thousand and social benefits amounting to NIS 98 thousand with respect to 2013. Total remuneration of Mr. Eldad Fresher for 2014, excluding salary and social benefit differences for 2013 and catch-up payment to reserves due to changes in salary in the reported period, amounted to NIS 5,941 thousand.**

Details of senior officer remuneration[1] - continued

(NIS in thousands)

All of 2013											
Details of remunerated party[2]		Remuneration for services rendered[3]						Loans granted at beneficial terms[4]		Loans granted at standard terms
Name	Position	Salary	Bonuses[16]	Social benefit contributions[5]	Share-based payment[6]	Value of additional benefits[7]	**Total**	Balance as of December 31, 2013	Average term to repayment (in years)	
Moshe Vidman[8]	Chairman of the Board of Directors	2,486	-	1,917	-	123	**4,526**	1,849	5.0	69
Eldad Fresher[9]	President & CEO	1,131	-	384	274	93	**1,882**	40	1.0	11
Eliezer Yones[13]	Former President & CEO	3,030	-	259	1,900*	155	**5,344**	-	-	98
Dan Lubash[14]	President of subsidiary - United Mizrahi Bank (Switzerland) Ltd.	1,231	292	656	-	103	**2,282**	-	-	-
Dina Navot[11]	Vice-President, Manager, Marketing, Advertising and Business Development Division	1,107	-	336	733	71	**2,247**	758	7.5	36
Doron Klauzner[15]	Vice President and Manager, Business Banking Division	1,120	-	341	557	83	**2,101**	22	1.0	36

* Includes non-linear accounting of stock option plan for the former Bank President & CEO, approved on November 30, 2008, over a term of 5 years and 4 months. The options would be granted to the former Bank President & CEO in five lots, on April 1 of each year between 2010-2014. The plan is accounted for as follows:
NIS 1.2 million in 2008, NIS 14.3 million in 2009, NIS 10.4 million in 2010, NIS 6.4 million in 2011, NIS 3.9 million in 2012, NIS 1.9 million in 2013 and NIS 0.5 million in 2014. See Note 16.A.1 to the financial statements for details.

Remarks:

(1) Remuneration is in terms of cost to the Bank and excludes payroll tax.

(2) Remunerated parties are employed full-time by the Bank and do not hold any Bank equity.

(3) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(4) The benefit is under the same terms and conditions granted to all Bank employees.

(5) Includes severance pay, pension, study fund, acclimation bonus, paid leave and social security.

(6) For details of share-based payment to the President and to officers, see Note 16.A to the financial statements.

(7) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(8) Mr. Moshe Vidman – On June 17, 2013, the General Meeting of shareholders approved the Bank contracting of terms of office and employment of the Chairman of the Bank Board of Directors ("terms of employment and office of the Chairman of the Board of Directors").

Mr. Moshe Vidman serves as Chairman of the Bank Board of Directors, at a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and would terminate on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice.

The Chairman would be eligible to receive for his work a monthly salary amounting to NIS 180 thousand, linked to the Consumer Price Index. The Chairman would also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments would be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas.

The Bank provides to the Chairman of the Board of Directors a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Upon termination of the Chairman's employment, the Bank would pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also pay an acclimation bonus equal to 6 monthly salaries plus social benefits.

In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he would be paid additional amounts as stipulated in the employment agreement - subject to conditions stated in the employment contract.

Upon termination of the Chairman, the Bank would provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank would also release the study fund to the Chairman.

All other terms of office and employment of the Chairman of the Board of Directors were listed in an Immediate Report dated April 24, 2013, reference number 2013-01-044368 (hereinafter: "the Immediate Report concerning terms of employment and office of the Chairman of the Board of Directors"). This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

As for bonuses, see details in section (16) below.

(9) Mr. Eldad Fresher – On June 17, 2013, the Bank Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. On May 4, 2014, the Bank Board of Directors approved, after approval by the Remuneration Committee, the Bank President's terms of office and employment. On June 10, 2014, these terms of office and employment were approved by the General Meeting of Bank shareholders.

The Bank President's terms of office and employment were set in conformity with the Bank's remuneration policy as adjusted for Bank of Israel regulations, as described above. This policy was approved by the Remuneration Committee, the Bank Board of Directors and the General Meeting of Bank shareholders.

Below is a summary of the Bank President's terms of office and employment - as listed in Appendix B to a report issued by the Bank on May 4, 2014, reference 2014-01-056838 (hereinafter: "the Immediate Report concerning terms of employment and office of the Bank President & CEO"):

The employment contract is for an unlimited term and either party may terminate it for any reason by three months' advance notice to the other party.

For his work, the Bank President is entitled to monthly salary at NIS 185 thousand, fully linked to the Consumer Price Index, based on the CPI known on August 16, 2013, and to benefits.

The Bank provides to the Bank President a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Bank President & CEO, to a study fund at 7.5% of his salary.

Upon termination of the Bank President & CEO's employment, at any time and for any reason, the Bank would pay him a retirement bonus equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also issue a letter releasing all contributions made pursuant to the individual employment contract signed by the Bank and by the Bank President & CEO, with regard to the latter's work for the Bank prior to their appointment as President & CEO. The Bank would also release to the President their study fund and would also pay, in exchange for non-competition, an acclimation bonus equal to 6 monthly salaries plus social benefits. Furthermore, upon termination of the Bank President's employment, he would be paid other amounts as stipulated in the employment contract, subject to conditions stated in the employment contract.

The Bank President committed that for six (6) months after termination of his position and employment with the Bank, for any reason, he would not directly or indirectly act or engage in or on behalf of any other banking corporation and would not serve as officer of or on behalf of any entity which competes with Bank business.

According to the employment contract, the Bank President would be eligible for a monetary bonus and equity-based remuneration, in conformity with the Bank's remuneration policy as it may be from time to time, with a mix and subject to conditions as approved.

All other terms of office and employment of the President were listed in Appendix B to an Immediate Report dated May 4, 2014, reference number 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

As for bonuses, see details in section (16) below.

(10) Mr. Ophir Morad is employed by the Bank pursuant to an individual employment contract effective as from January 1, 2014 for an un-determined term. Mr. Morad's monthly salary is linked to the Consumer Price Index. Upon termination of his employment by the Bank, Mr. Morad is entitled to an acclimation bonus equal to six months' salary without any benefits. Mr. Morad would also be entitled, upon termination of his employment, to have the Bank release all amounts accrued in his name in various funds. Notwithstanding the foregoing, Mr. Morad would not be entitled to an acclimation bonus and to release of all amounts accrued in his name in various funds in case of termination under extraordinary circumstances, as set forth in the agreement. Either party to the

employment contract may terminate the contract subject to three months' advance notice and subject to conditions specified in the employment contract. For bonuses, see details in section (16) below.

(11) Ms. Dina Navot is employed by the Bank pursuant to an individual employment contract effective as from March 5, 2012 for an un-determined term. Ms. Navot's monthly salary is linked to the Consumer Price Index. Upon termination of her employment by the Bank, Ms. Navot is entitled to an acclimation bonus equal to six months' salary without any benefits. Ms. Navot would also be entitled, upon termination of her employment, to have the Bank release all amounts accrued in his name in various funds. Notwithstanding the foregoing, Mr. Morad would not be entitled to an acclimation bonus and to release of all amounts accrued in her name in various funds in case of termination under extraordinary circumstances, as set forth in the agreement. Either party to the employment contract may terminate the contract subject to three months' advance notice and subject to conditions specified in the employment contract. For bonuses, see details in section (16) below.

(12) Mr. Larry Moshe – employed by the Bank under an individual employment contract effective since November 8, 2009 for an unspecified term. Mr. Larry's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Larry is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Larry is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Larry shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stated in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions specified in the employment contract. As for bonuses, see details in section (16) below.

(13) For details of employment terms of Mr. Eliezer Yones, see Note 16.F to the financial statements. As for bonuses, see details in section (16) below.

(14) Mr. Dan Lubash is employed as President of the Bank's subsidiary UMB Switzerland Ltd. in Switzerland (hereinafter: "the subsidiary").

As from May 1, 2011, Mr. Lubash is employed by an individual employment contract for a fixed term of 4 years (through April 30, 2015). Either party may teminate the contract by six months' advance notice. Should the subsidiary decide to terminate Mr. Lubash's employment prior to the term specified in the contract, under other than extraordinary circumstances as listed in the contract, the subsidiary would pay the salary, bonus and other payments, as listed in the contract, for three months beyond the six months' notice as described above.

Mr. Lubash's pay is determined by the Swiss subsidiary, and is denominated in Swiss Franks. In addition, Mr. Lubash is eligible to receive rent reimbursement for his residence in Switzerland. As for bonuses, see section (16) below.

(15) Mr. Doron Klauzner – employed by the Bank under an individual employment contract effective since November 8, 2009 for an unspecified term. Mr. Klauzner's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Klauzner is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Klauzner is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Klauzner shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as specified in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions statedin the employment contract. As for bonuses, see details in section (16) below.

(16) Bonuses

1. Bonus for 2014

1.1 Bonus to Chairman of the Board of Directors

Pursuant to terms of employment and office of the Chairman of the Board of Directors, the Chairman is entitled, *inter alia*, to an annual monetary bonus equal to 9 monthly salaries at most, based on the eligibility formula approved in conjunction with approval of their terms of employment and office and subject to threshold conditions based on return on equity, overall capital adequacy ratio and core capital adequacy ratio for the Bank for the bonus year. The Chairman of the Board of Directors would also be entitled to an additional deferred bonus, soon after approval of the Bank's 2015 financial statements, equal to up to 9 monthly salaries, subject to threshold conditions based on return on equity and in accordance with an eligibility formula for the deferred bonus - as specified in Appendix II to the Immediate Report concerning approval of terms of employment and office of the Chairman of the Board of Directors.

The eligibility formula for the annual bonus, approved as specified above, is based on three (3) quantitative, company-wide targets which account for up to 85% of the maximum potential bonus: return on equity (weighted at 55% of the maximum potential bonus), ratio of return on Bank share to return of banking index shares and operating efficiency ratio (each weighted at 15% of the maximum potential bonus). The annual bonus formula also includes a discretionary bonus component, accounting for up to 15% of the maximum potential bonus. In 2014, the Chairman of the Board of Directors received an award amounting to NIS 1,016 thousand with respect to 2013, including the discretionary component in full (amounting to NIS 246 thousand), after approval by the General Meeting of shareholders on June 10, 2014, in line with approval by the Remuneration Committee and by the Board of Directors.

As for 2014, the Chairman of the Board of Directors is entitled, based on quantitative benchmarks in the eligibility formula for the annual bonus - as specified in Appendix II to the Immediate Report about approval of the terms of employment and office of the Chairman of the Board of Directors, to a bonus amounting to NIS 365 thousand. The Remuneration Committee and the Board of Directors also approved the award of the discretionary component in full (15% of the maximum potential bonus), amounting to NIS 246 thousand, with respect to 2014. Approval of the discretionary component of the annual bonus is subject to approval by the General Meeting of shareholders.

1.2 Bonus for the President & CEO

According to the remuneration plan of the President & CEO, as specified in the Immediate Report about terms of employment and office of the President & CEO, he would be entitled - in addition to equity-based remuneration awarded to him and the eligibility for which is also conditional - to a monetary bonus capped at NIS 1,517 thousand plus CPI linkage differentials, based on the CPI known on August 16, 2013 ("the maximum monetary bonus") for each calendar year between 2014-2016. This is subject to meeting threshold conditions during the bonus year, based on rates of return on equity, overall capital adequacy ratio and core capital adequacy ratio at the Bank for the bonus years.

Eligibility of the President & CEO to the monetary bonus is contingent, as noted, on threshold conditions and is based on four (4) quantitative, company-wide benchmarks: return on equity, return on Bank share compared to the comparison benchmark, operating efficiency ratio and average ratio of deposits to loans, whose aggregate weighting is 85% of the maximum monetary bonus, as well as a qualitative bonus weighted at 15% of the maximum monetary bonus. For details of threshold conditions for eligibility for the monetary bonus, conditions for eligibility for the monetary bonus, the Board of Directors' authority to reduce the monetary bonus and provisions with regard to reimbursement of the monetary bonus – see Appendix II to the Immediate Report about terms of employment and office of the President & CEO. The annual bonus to which the President & CEO is eligible with respect to quantitative benchmarks for 2014 is NIS 721 thousand. The Bank Board of Directors also approved, after approval by the Remuneration Committee, an amount of NIS 205 thousand with respect to the qualitative benchmark for 2014.

1.3 Bonus for other officers and for the Internal Auditor

On June 19, 2014, the Bank Board of Directors approved, after approval by the Remuneration Committee, and in line with the officer remuneration policy, approved on June 10, 2014 by the General Meeting of shareholders, a remuneration plan for officers concerning, *inter alia*, award of equity-based remuneration and monetary remuneration ("variable remuneration"). Eligibility for variable remuneration is contingent on threshold conditions, identical to those listed in the Immediate Report about terms of employment and office of the President & CEO and is also based on four (4) quantitative company-wide benchmarks, identical to those in the remuneration plan of the President & CEO, whose aggregate weighting is 80% of the maximum monetary bonus, as well as two qualitative benchmarks weighted at 10% each. The qualitative benchmarks refer to achievement by each officer of individual targets specified for them at the start of the year, as well as to evaluation of the officer's overall performance, at the discretion of the President & CEO - to be brought for approval by the Remuneration Committee and by the Board of Directors. As for the Chief Internal Auditor, evaluation of her achievement of her individual targets and evaluation of her performance would be by the Audit Committee, after receiving the recommendation of the Chairman of the Board of Directors - to be brought for approval by the Remuneration Committee and by the Board of Directors. The Bank Board of Directors, after approval by the Remuneration Committee and after receiving evaluations by the President & CEO and by the Chairman of the Board of Directors, as the case may be, as specified above, approved the eligibility rate of the officers and the Chief Internal Auditor with respect to the qualitative benchmarks (which also apply to the eligibility rate with respect to this component in equity-based remuneration) for 2014.

2. Bonus for 2013

2.1 Bonus to Chairman of the Board of Directors

See section 1.1 above.

2.2 Bonus for the former President

In the most recent employment agreement, effective from December 1, 2008 through April 1, 2014, the former President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement. For details, see Note 16.F. to the financial statements.

2.3 Bonuses to VPs

VPs at the Bank received option allotment pursuant to the stock option plan approved in 2009. Each VP agreed, at their discretion, to be excluded from the framework plan for payment to Bank officers for each of the years 2009 through 2013. For further information, see Note 16.A. 3. to the financial statements.

2.4 Bonus to CEO of the subsidiary

On February 12, 2014, the subsidiary's Board of Directors discussed the recommendation by the subsidiary's Chairman to award a bonus to the subsidiary's CEO, in line with his employment contract and based on results in the subsidiary's financial statements and achievement of the subsidiary's objectives, with due notice to developments in the regulatory environment and to challenges facing the subsidiary; the subsidiary's Board decided to award a bonus amounting to CHF 75 thousand to the subsidiary's CEO.

Transactions with controlling shareholders

On August 6, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 became effective ("the Amendment"), whereby, inter alia, a reporting corporation is required to issue an Immediate Report with regard to "details of a transaction with a controlling shareholder, or which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the organ which confirmed the transaction and its summary reasons for said confirmation; in this paragraph, "transaction" excludes a transaction which the most recent financial statements classify transactions of its type as immaterial."

Banks have been exempted from immediate reporting of non-extraordinary banking transactions, provided they specify criteria for extraordinary and negligible transactions.

The criteria for unusual and immaterial transactions, as previously set by the Audit Committee of the Board of Directors and reconfirmed on January 20, 2015 are as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A. Transaction for sale of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as specifiedh above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of supervisory capital, after adjustments and deductions, as defined in Proper Conduct of Banking Business regulation 202 (hereinafter - "supervisory capital"). This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

B. Transaction for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of supervisory capital, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

C. Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of supervisory capital.

D. Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of supervisory capital. This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" - a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as stated in Proper Conduct of Banking Business Regulation no. 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of supervisory capital, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of supervisory capital. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated there with, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

   "**Group of controlling shareholders**" - a controlling shareholder, as defined in the Securities Act, together with corporations affiliated there with, as the term "affiliated person" is defined in Proper Conduct of Banking Businesses regulation 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** - receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "affiliated person" of the controlling shareholder, and which is not a company controlled there by, shall be deemed to be a material transaction if, consequently, total deposits from that company, on a consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank would be calculated based on the most recent annual financial statements published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as stated above)** - a transaction in securities or in foreign currency where the annual commission charged with respect there to does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statement published by the Bank prior to the transaction date.

D. **Other transactions** - any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total supervisory capital.

Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market terms" - terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or where the controlling shareholder has no personal interest in the transactions. Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Businesses regulation 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions there with; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Businesses regulation 312 does not apply - as for Indebtedness transactions to which Proper Conduct of Banking Businesses regulation 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Businesses regulation 312 and to provide disclosure there for in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Total indebtedness[1]
					December 31, 2014
Wertheim Group and private companies controlled there by	1	-	-	-	1
Relatives of Wertheim Group	13	33	-	-	46
Total - Wertheim Group	14	33	-	-	47
Ofer Group and private companies controlled there by					
Relatives of Ofer Group	257	56	22	14	349
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	91	75	-	-	166
Israel Chemicals Ltd.	-	11	-	-	11
Carmel Ulpinim Ltd.	-	-	-	2	2
Total - Ofer Group	348	142	22	16	528

Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Total indebtedness[1]
					December 31, 2013
Wertheim Group and private companies controlled there by	-	-	-	-	-
Relatives of Wertheim Group	17	32	1	8	58
Total - Wertheim Group	17	32	1	8	58
Ofer Group and private companies controlled there by	-	-	-	-	-
Relatives of Ofer Group	254	51	43	26	374
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	107	46	-	-	153
Israel Chemicals Ltd.	-	9	-	-	9
Carmel Ulpinim Ltd.	-	-	-	2	2
Total - Ofer Group	361	106	43	28	538

(1) Indebtedness as defined in Proper Conduct of Banking Businesses regulation 312, after set off of allowed deductions.

B. Deposits

Group of controlling shareholders	December 31, 2014 Balance as of December 31, 2014	Highest balance in 2014
Wertheim Group and private companies controlled there by	1	1
Relatives of Wertheim Group and private companies controlled there by	2	12
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	3	3
Total - Wertheim Group	6	16
Ofer Group and private companies controlled there by	14	22
Relatives of Ofer Group and private companies controlled there by	104	239
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	-	-
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	4	4
Israel Corporation Ltd.	492	1,410
Israel Chemicals Ltd.	3	89
Carmel Ulpinim Ltd.	3	3
Total - Ofer Group	620	1,767

Group of controlling shareholders	December 31, 2013 Balance as of December 31, 2013	Highest balance in 2013
Wertheim Group and private companies controlled there by	2	5
Relatives of Wertheim Group and private companies controlled there by	24	24
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	1	3
Total - Wertheim Group	27	37
Ofer Group and private companies controlled there by	9	8
Relatives of Ofer Group and private companies controlled there by	148	393
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	-	2
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	-	2
Israel Corporation Ltd.	797	897
Israel Chemicals Ltd.	4	6
Carmel Ulpinim Ltd.	-	3
Total - Ofer Group	958	1,311

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Independent Auditors' Fees (1)(2)(3)

(NIS in thousands)

	Consolidated		The Bank	
	2014	2013	2014	2013
For audit activities[(4)]:				
Independent auditors[(5)]	7,146	7,131	6,307	6,312
Other independent auditors	1,065	1,114	375	419
Total	8,211	8,245	6,682	6,731
For tax services[(6)]:				
Independent auditors	-	-	-	-
Other independent auditors	183	176	183	176
For other services:				
Independent auditors[(5)(7)]	1,505	1,281	1,505	1,281
Other independent auditors	478	203	-	-
Total	2,166	1,660	1,688	1,457
Total fees to independent auditors	10,377	9,905	8,370	8,188

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) Audit of annual financial statements and review of interim financial statements.

(5) Includes other independent auditors in overseas branches.

(6) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(7) Includes mainly payments for consulting and various services.

Board of Directors

The Bank's members of the board of directors, their principal occupation, and other directorships as of the publication date of these financial statements are presented below:

Moshe Vidman, Chairman[(1)(2)]	
Membership of Board of Directors' committees	Credit - Chairman, Risk Management - Chairman
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(3)]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	August 2, 2010.
Education	Undergraduate degree - Economics and Political Science, Hebrew University, Jerusalem. MBA (Financing), Hebrew University, Jerusalem.
Current occupation	Chairman of the Board of Directors, Moshe Vidman Ltd. (owner)
Previous occupation (in past 5 years, other than current occupation)	Board member of Bank Leumi Le-Israel Ltd.; Partner Communications Ltd.; Israel Corporation Ltd.; ICL Ltd.; Dead Sea Works Ltd.; Rotem Amfert Negev Ltd.; Melisaron Ltd.; Elrov Real Estate and Hotels Ltd.; Rosebud Ltd.; Yafora Tavori Ltd.; Ofer Investments Ltd.; Dash Apex Holdings Ltd.; CABM Ltd.; Ofer Development and Investments Ltd.; Ofer Sachaf Ltd.; Ofer Bros. Investments Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Bros. Holdings Properties Ltd.; Ofer Centers Ltd.; Ofer Commercial Centers Ltd.; Hof Almog Eilat Ltd.; AABM Ltd.; Ofer Bros. Engineering and Development Ltd.; Ofer Nazareth Industrial Properties Ltd.; Mivnei Oferim Ltd.; Melisa Ltd.; CID Israeli Investments and Development Company Ltd.; Mistletoe Holding BV Ltd.; Ofer Investment Development Energy and Management Ltd.; Ofer Investment Energy Sources Ltd.; Herbert Samuel 10 (Management) Ltd.; Ofer Vacatins Tourism Ltd.; Ofer Bros. Holdings (1989) Ltd.; Melifar Shopping Malls Ltd. (in voluntary dissolution); Ofer Commercial Centers Management Maof Ltd. (in voluntary dissolution); Neot Hof Almog 1990 Ltd.; Residence Towers Ltd.; Carmeli - Yuliad Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) Serves as Chairman of the Bank Board of Directors as from December 1, 2012.
(3) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Zvi Efrat[1]	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	January 24, 1995.
Education	LL.B. - Hebrew University, Jerusalem; Attorney
Current occupation and in the past 5 years	Senior Partner, J. Gurnitzki & Co. law firm, Board member, Efrat Smith Trust Company; Board member, Efrat Legal Services
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Board of Directors - continued

Sabina Biran	
Membership of Board of Directors' committees	Audit, Risk Management, Remuneration
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	No
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(2)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	February 27, 2012
Education	Undergraduate degree in Political Science and Economics, Haifa University; MBA, Harriett-Watt University; MA studies in Political Studies and International Relations, Tel Aviv University.
Current occupation	Owner and Co-CEO of MVP-B Ltd. Board member: Shufersal Ltd.
Previous occupation (in past 5 years, other than current occupation)	Chairman, Tel Aviv Tourism NGO; Chairman, Chem Nir Ltd. Board member: Leumi Partners Underwriting Ltd.; Raphael; HaPhoenix Gemel Ltd.; HaPhoenix Insurance Ltd,; Fox Wiezel Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.

(2) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Ron Gazit	
Membership of Board of Directors' committees	Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	Undergraduate degree (LLB) Law degree, Attorney – Tel Aviv University
Current occupation	Founder and Manager, Ron, Gazit, Ruthenberg & Co. - law firm; Board member, Gazit Ruthenberg Trust Company; R. Gazit Attorney (2002)
Previous occupation (in past 5 years, other than current occupation)	Board member - Gover Radio Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Board of Directors - continued

Avi Ziegelman	
Membership of Board of Directors' committees	Audit - Chairman; Risk Management, Remuneration - Chairman
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	September 19, 2007
Education	BA in Accounting and Economics – Tel Aviv University; MA in Business Economy (Finance) – Tel Aviv University; CPA
Occupation (in past 5 years)	Financial consultant and Board member, Currently serves as Board member of: Tafron Ltd.; Clal Biotechnolgy Industries Ltd.; Ormat Industries Ltd.; Ultra Equity Investments Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Avraham Zeldman[1]	
Membership of Board of Directors' committees	-
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	February 26, 2015
Education	Studied Statistics and Economics, Business Administration at Haifa University (not eligible for degree)
Current occupation	Currently serves as Chairman of the Board of Directors of Fox Wiezel Ltd. (since 2012); Board member of the following companies: A. Zeldman Management Ltd.; Liliot Ltd.; Liliot Bakery Ltd.
Previous occupation (in past 5 years, other than current occupation)	Chairman of the Board of Directors: Bank Leumi LeMashkantaot Ltd.; Leumi Partners Underwriting Ltd.; Leumi Partners Research Ltd.; Leumi Start Ltd.; Leumi Start Management (2000) Ltd. Board member: Paz Oil Ltd.; Partner Communications Ltd.; Electra Consumer Goods 1970 Ltd.; Fox Wiezel Ltd. (2008-2011); Super Pharm Ltd.; Avgol Industries Ltd.; Technorov Ltd.; Archimedes Global Cyprus; Apac Leumi Inc.; Apax Leumi Partners; Keshet Broadcasting Ltd.; Food Love Capital Ltd.; CEO, Leumi Partners Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Nahshon Yoav-Asher	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	Yes
Start date in office as member of the Bank's Board of Directors	February 27, 2012
Education	Academic, undergraduate degree in Economics and Accounting, Tel Aviv University; MBA (specialized in Strategy), Hebrew University, Jerusalem
Current occupation	CFO; VP, Finance and Business Development; Central Bottling Company Ltd. (Coca Cola) Board member: Neviot Teva HaGalil Ltd. Mey Galil Ltd. (application filed to merge with Neviot Teva HaGalil Ltd.), Central Beverage Distribution Company Ltd., Dairy Manufacturers Association Ltd. (in voluntary dissolution), Meshek Tzuriel Distribution Ltd. (in voluntary dissolution), Keshet Broadcasting Ltd., Mira Trading Ltd., TURK TUBORG BIRA VE MALT, SANAYII A.S (Turkey), PAZARLAMA A.S TUBORG (Turkey), INTERNATONAL DAIRIES CORPORATION B.V. (Holland) AL BREWERIES B.V (Holland), UNITED ALBANIAN BREWERIES SH.P.K (Albania).
Previous occupation (in past 5 years, other than current occupation)	Chairman of the Board of Directors, Neviot Teva HaGalil Ltd.; Chairman of the Board of Directors, Dash Apex Holding Ltd. and Milko Industries Ltd.; Board member, Meshek Tzuriel Dairy Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Mordechai Meir	
Membership of Board of Directors' committees	Audit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	December 24, 2008
Education	BA in Accounting and Economics – Tel Aviv University; CPA.
Current occupation	CEO,. Meirav Managers Ltd.; Board member of the following companies: Ofer Investments Ltd.; Melisaron Ltd,; Melisa Ltd.; C.A.B.M. Ltd.; Ofer Bros. Foreign Investments Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Centers Ltd.; Ofer Bros. Engineering and Development Ltd.; Mistletoe BV; Ofer Commercial Centers Management Maof Ltd. (in voluntary dissolution), Ofer Brod. Holdings (1989) Ltd., Electric Wires (Properties) Ltd. (in voluntary dissolution), Mey Dal Properties Ltd. (in voluntary dissolution).
Previous occupation (in past 5 years, other than current occupation)	British Investments Ltd., Bney Moshe Karaso Ltd. (Karaso Real Estate Ltd.)
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Board of Directors - continued

Avraham Neuman	
Membership of Board of Directors' committees	Audit, Remuneration, Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	April 11, 2013
Education	PhD in Mathematics from Hebrew University, Jerusalem
Current occupation	Professor of Mathematics, Hebrew University, Jerusalem; Board member of: A. Neuman Investments Ltd.; A. Neuman Ltd.; NAE HOLDINGS LTD; BIDORBUY.COM; TLD HOLDINGS LTD.
Previous occupation (in past 5 years, other than current occupation)	-
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Gideon Sitterman	
Membership of Board of Directors' committees	Remuneration, Audit, Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	July 7, 2009
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA.
Current occupation	Chairman and owner of Pninush Ltd.
Previous occupation (in past 5 years, other than current occupation)	CEO, Kal Construction Ltd.; Director General, Ministry of Transportation and Road Safety; Board member, Camor Ltd., Chairman, Port of Ashdod
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

Board of Directors - continued

Liora Ofer	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	Board member of Ofer Investments Group companies as listed below, including Ofer Investments Group companies which (directly and indirectly) hold Bank shares.
Start date in office as member of the Bank's Board of Directors	January 23, 2006
Education	High school – HaReali HaIvri Haifa
Board memberships:	Chairman, Melisaron Ltd.; Chairman, Ofer Investments Ltd. Board member: Oro Investments Ltd.; Oro Consulting and Management Ltd.; Helidor Entrepreneurs Ltd.; Ramat Aviv Mall Ltd.; Ofer Bros. Properties (Ra'anana) Ltd. (in voluntary dissolution); Ofer Sachaf Ltd.; Ofer Bros. Property Holdings Ltd.; Hof Almog Eilat Ltd.; AABM Ltd., Mivnei Oferim Ltd.,Ofer Development and Investments Ltd.; Ofer Industrial Properties (Nazareth) Ltd., Ofer Commercial Centers Ltd., Ofer Commercial Centers Ltd., CID Israeli Investments and Development Company Ltd.; Neot Hof Almog (1990) Ltd.; Carmeli Yuliad Ltd.; Herbert Samuel 10 (Management) Ltd.; Ofer Investments Energy Sources Ltd.; Ofer Investment Development Energy and Management Ltd.
Previous occupation (in past 5 years, other than current occupation)	Business and corporate management in real estate, investments and other sectors, including Board memberships as listed above.
Family member of another interested party in the corporation?	Daughter of Mr. Yuli Ofer (RIP), sister of Mr. Doron Ofer and cousin of Mr. Eyal Ofer
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Jonathan Kaplan	
Membership of Board of Directors' committees	Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	May 12, 2011
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA; graduate degree in Political Science and National Security, Haifa University; National Security College, Tel Aviv.
Current occupation	Economic Advisor Board member: Vilar International Ltd.; Clal Biotechnology Industries Ltd.; Amir Agricultural Marketing and Investments Ltd.; Central Bottling Company Ltd.; International Breweries Ltd.; PharmUp Marketing (1966) Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member: Solbar Industries Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

Board of Directors - continued

Osnat Ronen	
Membership of Board of Directors' committees	Credit, Audit, Remuneration
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	October 23, 2013
Education	Undergraduate degree in Mathematics and Computer Science, Tel Aviv University. MBA (Financing), Tel Aviv University.
Current occupation	Board member of Partner Communications Ltd.; Fox Wiezel Ltd., advisor to Liquident.
Previous occupation (in past 5 years, other than current occupation)	Partner, Viola Private Equity. Board member of: Amiad Water Systems Ltd.; Aeronautics Ltd.; Orad High-tech Systems Ltd.; Matomi Media Group Ltd.; Degania Silicon Ltd.; Audiocodes Ltd.; D-Pharm Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

Yossef Shachak	
Membership of Board of Directors' committees	Credit, Audit, Remuneration
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	No
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(1)]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	April 26, 2010
Education	Academic, Undergraduate degree in Accounting, Hebrew University, Jerusalem; CPA
Current occupation	Accounting and Financial Advisor to corporations and Boards Board member: Tafron Ltd., Yogi Consulting and Investments Ltd. - controlling shareholder, Shachak & Co. Properties Ltd. - shareholder, Y.S. Ltd. - shareholder; Member, Public Council of Accounting Standards Board; HaBima National Theater (external Board member).
Previous occupation (in past 5 years, other than current occupation)	Member, Audit Committee of Bank of Israel; Board member, Dash Provident Fund Management Ltd., Board member of Elul Tamarind Ltd., Board member of Psagot Investment House Ltd.; Peleg Nia Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Board of Directors - continued

During 2014, the Bank Board of Directors held 18 plenary meetings. During this period there were also 66 meetings of Board committees and 3 Board member workshops.

The permanent Board committees are: Audit Committee, Risk Management Committee, Credit Committee and Remuneration Committee

Presented below are changes during 2014 and through publication of these financial statements:

On September 15, 2014, Mr. Moshe Wertheim announced his resignation from the Bank's Board of Directors. Upon his resignation, the number of Board members having accounting and financial qualifications is 10.

At the Board meeting held on January 19, 2015, the Board resolved to convene an extraordinary General Meeting of shareholders to take place on February 26, 2015, with the agenda including appointment of Mr. Avraham Zeldman as a Board member of the Bank. Note that on December 18, 2014, the Supervisor of Banks announced that he had no objection to Mr. Avraham Zeldman being appointed Board member of the Bank.

On February 26, 2015, the General Meeting of shareholders approved the appointment of Mr. Avraham Zeldman as Board member of the Bank.

Upon appointment of Mr. Avraham Zeldman, the number of Board members having accounting and financial qualifications is 11.

Board members having accounting and financial qualifications

The Bank's Board of Directors prescribed that at least three directors should have accounting and finance skills. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. Upon publication of these financial statements, there are 11 Board members with accounting and finance skills: Moshe Vidman, Sabina Biran, Avi Ziegelman, Avraham Zeldman, Nahshon Yoav-Asher, Mordechai Meir, Avraham Neuman, Gideon Sitterman, Yonatan Kaplan, Osnat Ronen, Yossef Shachak. The Audit Committee includes 7 Board members having accounting and financial qualifications.

Below are the facts related to each of the directors in the Bank named above, and by virtue of which they are to be deemed having accounting and financial skills:

Moshe Vidman

Undergraduate degree in Economics; Graduate degree in Business Administration; specialized in Financing; served as CEO of two industrial companies; Board member at leading companies for over 25 years; member, Finance Committee and Audit Committee, served as Chairman of multiple companies. Serves as Chairman of the Bank Board of Directors.

Board of Directors – continued

Sabina Biran

Undergraduate degree in Political Science and Economics, Haifa University; MBA; served as CEO of two airlines; Board member of private and public companies; formerly - Chairperson of the Board of Directors of an industrial company.

Avi Ziegelman

Undergraduate degree in Accounting and Economics; graduate degree in Business Economy, specialized in Financing; licensed CPA. Provides financial consulting and serves as Board member with different companies. Was Senior Partner, Head of Professional Department with KPMG Somekh Chaykin CPA.

Avraham Zeldman

Studies Statistics, Economics and Business Administration at Haifa University without eligibility for a degree. Serves as Chairman of the Board of Directors of a public company. Has served as executive of Bank Leumi, as Chairman of the Board of Directors of Bank Leumi LeMashkantaot and as CEO of Leumi Partners Ltd. Has served as Board member of private and public companies.

Nahshon Yoav-Asher

Undergraduate degree in Economics and Accounting, Tel Aviv University; MBA (specialized in Strategy); CFO, VP, Finance and Business Development; Board member of private and public companies.

Mordechai Meir

BA in Accounting and Economics – Tel Aviv University; CPA.

Worked for nine years at Somekh Chaikin as Senior CPA, board member of public companies, consultant to interested parties in public companies. In recent years: CEO of consulting firm, MERAV Management Ltd. - specialized in consulting to and representation of real estate and financials sectors for major corporations and enterprises.

Avraham Neuman

Professor at Hebrew University, Mathematics Institute (since 1982), Economics Department (1982-1989) and Center for Research into Rationality (since 1990). Has served as Board member of public companies; currently serves as Chairman of the Board of Directors of BIDORBUY.COM.

Gideon Sitterman

CPA, former member of Securities Authority, former Director General of the Ministry of Transportation and Chairman, Port of Ashdod, has extensive accounting, economics and financial knowledge.

Board of Directors – continued

Jonathan Kaplan

Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA; graduate degree in Political Science and National Security; Economic Advisor; Board member of private and public companies; formerly - Superintendent of Income Tax.

Osnat Ronen

Undergraduate degree in Mathematics and Computer Science from Tel Aviv University. MBA (Finance) from Tel Aviv University. Has served as Deputy CEO of investment house; Board member of private and public companies.

Yossef Shachak

Undergraduate degree in Accounting, Hebrew University, Jerusalem; CPA; accounting and financial advisor to private and public companies; Board member of private and public companies; previously - President, Institute of Certified Public Accountants in Israel.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with due responsibility. The Board of Directors appreciates the constant efforts of the Bank President & CEO, Bank management and Bank employees to expand the business activities and client base.

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

Approval date:
Ramat Gan, March 9, 2015

Management Discussion of Group Business and Operating Results

Table of Contents

Management Discussion - Addendum A

Consolidated Balance Sheet – Multi-period information

As of year end, 2010-2014

Reported amounts (NIS in millions)

	2014	2013	2012	2011	2010
Assets					
Cash and deposits with banks	26,798	26,060	16,671	15,972	12,614
Securities	14,259	7,000	9,041	8,432	7,449
Securities loaned or sold in repurchase agreements	107	70	207	136	247
Loans to the public	148,912	139,880	130,244	120,931	110,474
Provision for credit losses	(1,343)	(1,315)	(1,593)	(1,638)	(3,471)
Loans to the public, net	147,569	138,565	128,651	119,293	107,003
Loans to Governments	307	305	317	196	92
Investments in associates	52	60	60	52	52
Buildings and equipment	1,702	1,656	1,658	1,616	1,546
Intangible assets and goodwill	87	87	87	87	87
Assets with respect to derivatives	5,602	3,606	3,518	3,115	3,405
Other assets	2,081	2,204	2,032	1,347	809
Total assets	198,564	179,613	162,242	150,246	133,304
Liabilities and Shareholders' Equity					
Deposits from the public	152,379	141,244	128,081	118,883	104,601
Deposits from banks	1,258	2,041	1,694	2,007	2,432
Deposits from the Government	55	62	107	152	172
Securities loaned or sold in conjunction with repurchase agreements	223	-	-	-	-
Debentures and subordinated notes	20,580	16,443	14,039	12,202	9,813
Liabilities with respect to derivatives	6,497	3,538	3,773	3,964	2,892
Other liabilities(1)	6,072	5,950	5,296	4,984	5,898
Total liabilities	187,064	169,278	152,990	142,192	125,808
Equity attributable to equity holders of the Bank	10,987	9,852	8,811	7,666	7,130
Non-controlling interest	513	483	441	388	366
Total equity	11,500	10,335	9,252	8,054	7,496
Total liabilities and shareholders' equity	198,564	179,613	162,242	150,246	133,304

Management Discussion - Addendum B

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2010-2014

Reported amounts (NIS in millions)

	2014	2013	2012	2011(1)	2010(1)
Interest revenues	(2)5,347	6,442	6,591	6,840	5,509
Interest expenses	1,972	2,978	3,377	3,741	2,621
Interest revenues, net	3,375	3,464	3,214	3,099	2,888
Expenses with respect to credit losses	173	288	276	338	473
Interest revenues, net after expenses with respect to credit losses	3,202	3,176	2,938	2,761	2,415
Non-interest revenues					
Non-interest financing revenues (expenses)	173	14	95	18	(25)
Commissions	(2)1,395	1,458	1,452	1,474	1,432
Other revenues	44	27	26	17	33
Total non-interest revenues	1,612	1,499	1,573	1,509	1,440
Operating and other expenses					
Payroll and associated expenses	1,869	1,836	1,701	1,615	1,529
Maintenance and depreciation of buildings and equipment	705	683	652	608	585
Amortization and impairment of intangible assets and goodwill	-	-	-	-	14
Other expenses	458	438	433	444	438
Total operating and other expenses	3,032	2,957	2,786	2,667	2,566
Pre-tax profit	1,782	1,718	1,725	1,603	1,289
Provision for taxes on profit	673	592	599	522	469
After-tax profit	1,109	1,126	1,126	1,081	820
Share in profit (loss) of associates, after tax	5	(4)	-	1	-
Net profit:					
Before attribution to non-controlling interest	1,114	1,122	1,126	1,082	820
Attributable to non-controlling interest	(31)	(44)	(50)	(38)	(19)
Attributable to equity holders of the Bank	1,083	1,078	1,076	1,044	801

(1) Data in the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details, see Note 1.Z. to the financial statements.

(2) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Management Discussion - Addendum B - Continued

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2010-2014

Reported amounts

	2014	2013	2012	2011	2010
Earnings per Ordinary share (in NIS)[(1)]					
Basic earnings:					
Total net profit attributable to holders of ordinary shares of the banking corporation	4.70	4.72	4.77	4.65	3.63
Diluted earnings:					
Total net profit attributable to holders of ordinary shares of the banking corporation	4.68	4.69	4.74	4.57	3.58

(1) Share of NIS 0.1 par value.

Revenue and Expense Rates - of the Bank and its Subsidiaries[1]

For the year ended December 31,

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	2014			2013			2012		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %			In %
Interest-bearing assets									
Loans to the public[3]									
In Israel	140,363	[7]5,026	3.58	130,481	[7]5,966	4.57	120,786	[7]6,048	5.01
Outside of Israel	2,305	103	4.47	2,545	100	3.93	2,670	98	3.67
Total	142,668	5,129	3.60	133,026	6,066	4.56	123,456	6,146	4.98
Loans to the Government									
In Israel	303	9	2.97	310	9	2.90	235	7	2.98
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	303	9	2.97	310	9	2.90	235	7	2.98
Deposits with banks									
In Israel	1,841	8	0.43	1,073	21	1.96	1,893	40	2.11
Outside of Israel	296	5	1.69	348	21	6.03	251	16	6.37
Total	2,137	13	0.61	1,421	42	2.96	2,144	56	2.61
Deposits with central banks and cash									
In Israel	21,614	108	0.50	16,648	170	1.02	12,147	157	1.29
Outside of Israel	1,535	-	-	1,546	2	0.13	1,209	2	0.17
Total	23,149	108	0.47	18,194	172	0.95	13,356	159	1.19
Securities loaned or sold in repurchase agreements									
In Israel	199	1	0.50	125	1	0.80	194	4	2.06
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	199	1	0.50	125	1	0.80	194	4	2.06
Debentures held to maturity and available for sale[4]									
In Israel	7,294	62	0.85	5,632	118	2.10	7,153	177	2.47
Outside of Israel	1,105	16	1.45	1,249	17	1.36	1,522	23	1.51
Total	8,399	78	0.93	6,881	135	1.96	8,675	200	2.31
Debentures held for trading[5]									
In Israel	1,149	9	0.78	[11]1,001	17	1.70	[11]1,113	19	1.71
Outside of Israel	-	-	-	1	-	-	3	-	-
Total	1,149	9	0.78	1,002	17	1.70	1,116	19	1.70
Total interest-bearing assets	178,004	5,347	3.00	160,959	6,442	4.00	149,176	6,591	4.42
Receivables for credit card operations	2,914			2,941			2,853		
Other non-interest bearing assets[6]	5,793			5,159			5,436		
Total assets	186,711			169,059			157,465		
Total interest-bearing assets attributable to operations outside of Israel	5,241	124	2.37	5,689	140	2.46	5,655	139	2.46

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries [1]

For the year ended December 31,

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

			2014			2013			2012
	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate
			In %			In %			In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	5,204	5	0.10	4,804	15	0.31	4,680	25	0.53
Term deposits	118,599	1,359	1.15	107,417	2,094	1.95	97,795	2,507	2.56
Outside of Israel									
On-call	6	-	-	-	-	-	-	-	-
Term deposits	3,358	29	0.86	3,918	41	1.05	4,729	59	1.25
Total	127,167	1,393	1.10	116,139 [11]	2,150	1.85	107,204 [11]	2,591	2.42
Deposits from the Government									
In Israel	58	3	5.17	91	4	4.40	132	5	3.79
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	58	3	5.17	91	4	4.40	132	5	3.79
Deposits from banks									
In Israel	1,381	17	1.23	2,139	34	1.59	2,892	67	2.32
Outside of Israel	152	1	0.66	95	1	1.05	99	1	1.01
Total	1,533	18	1.17	2,234	35	1.57	2,991	68	2.27
Debentures and subordinated notes									
In Israel	18,752	556	2.97	15,243	786	5.16	13,678	710	5.19
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	18,752	556	2.97	15,243	786	5.16	13,678	710	5.19
Other liabilities									
In Israel	380	2	0.53	298	3	1.01	405	3	0.74
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	380	2	0.53	298[11]	3	1.01	405[11]	3	0.74
Total interest-bearing liabilities	147,890	1,972	1.33	134,005	2,978	2.22	124,410	3,377	2.71
Non-interest bearing deposits from the public	19,035			17,356[11]			15,065[11]		
Payables for credit card transactions	2,914			2,941			2,853		
Other non-interest bearing liabilities[8]	5,939			4,957			6,465		
Total liabilities	175,778			159,259			148,793		
Total equity	10,933			9,800			8,672		
Total liabilities and equity	186,711			169,059			157,465		
Interest margin			1.67			1.78			1.71
Net return[9] on interest-bearing assets									
In Israel	172,763	3,281	1.90	155,270	3,366	2.17	143,521	3,135	2.18
Outside of Israel	5,241	94	1.79	5,689	98	1.72	5,655	79	1.40
Total	178,004	3,375	1.90	160,959	3,464	2.15	149,176	3,214	2.15
Total interest-bearing liabilities attributable to operations outside of Israel	3,516	30	0.85	4,013	42	1.05	4,828	60	1.24

See remarks below.

Management Discussion - Addendum C - Continued
Revenue and Expense Rates - of the Bank and its Subsidiaries [1]

For the year ended December 31,

Reported amounts (NIS in millions)

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

			2014			2013			2012
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %			In %
Israeli currency - non-linked									
Total interest-bearing assets	105,258	3,397	3.23	89,813	3,388	3.77	78,872	3,798	4.82
Total interest-bearing liabilities	86,547	(781)	(0.90)	[11]71,621	[11](1,173)	(1.64)	[11]63,983	[11](1,610)	(2.52)
Interest margin			2.33			2.13			2.30
Israeli currency - linked to the CPI									
Total interest-bearing assets	53,845	1,505	2.79	51,568	2,590	5.02	48,248	2,248	4.66
Total interest-bearing liabilities	37,594	(987)	(2.63)	35,377	[11](1,681)	(4.75)	34,733	[11](1,562)	(4.50)
Interest margin			0.16			0.27			0.16
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	13,660	321	2.35	13,889	324	2.33	16,401	406	2.48
Total interest-bearing liabilities	20,233	(174)	(0.86)	22,994	(82)	(0.36)	20,866	(145)	(0.69)
Interest margin			1.49			1.97			1.79
Total - operations in Israel									
Total interest-bearing assets	172,763	5,223	3.02	155,270	6,302	4.06	143,521	6,452	4.50
Total interest-bearing liabilities	144,374	(1,942)	(1.35)	129,992	(2,936)	(2.26)	119,582	(3,317)	(2.77)
Interest margin			1.67			1.80			1.73

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries [(1)]

For the year ended December 31,

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	2014 compared to 2013			2013 compared to 2012		
	Increase (decrease) due to change[(10)]			Increase (decrease) due to change[(10)]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	354	(1,294)	(940)	443	(525)	(82)
Outside of Israel	(11)	14	3	(5)	7	2
Total	343	(1,280)	(937)	438	(518)	(80)
Other interest-bearing assets						
In Israel	46	(185)	(139)	28	(96)	(68)
Outside of Israel	(1)	(18)	(19)	2	(3)	(1)
Total	45	(203)	(158)	30	(99)	(69)
Total interest revenues	388	(1,483)	(1,095)	468	(617)	(149)
Interest-bearing liabilities						
Deposits from the public						
In Israel	128	(873)	(745)	183	(606)	(423)
Outside of Israel	(5)	(7)	(12)	(8)	(10)	(18)
Total	123	(880)	(757)	175	(616)	(441)
Other interest-bearing liabilities						
In Israel	79	(328)	(249)	31	11	42
Outside of Israel	-	-	-	-	-	-
Total	79	(328)	(249)	31	11	42
Total interest expenses	202	(1,208)	(1,006)	206	(605)	(399)

(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 12-mnonth periods ended December 31, 2014, 2013 and 2012, 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 9 million, NIS 7 million and NIS 0 million, respectively.
(5) To the average balance of debentures held for trade for the 12-mnonth periods ended December 31, 2014, 2013 and 2012, we added (deducted) the average balance of unrealized gain (loss) from adjustment to fair value of debentures held for trade, amounting to NIS (33) million, NIS 18 million and NIS 12 million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 417, 284 and 251 million were included in interest revenues for the 12-month periods ended December 31, 2014, 2013 and 2012, respectively.
(8) Includes financial derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price and the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity and the change in price.
(11) Re-classified.

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
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(3)	90,099	3,204	3,749	5,313	6,689	6,241
Financial derivatives (other than options)	8,706	5,574	31,860	10,940	7,380	10,189
Options (in terms of underlying asset)	2,211	2,110	3,353	170	123	-
Total fair value	101,016	10,888	38,962	16,423	14,192	16,430
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	82,246	3,795	9,748	5,132	2,607	2,500
Financial derivatives (other than options)	21,218	17,380	18,123	9,211	6,348	10,419
Options (in terms of underlying asset)	3,417	2,119	3,164	91	123	-
Total fair value	106,881	23,294	31,035	14,434	9,078	12,919
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(5,865)	(12,406)	7,927	1,989	5,114	3,511
Cumulative exposure in sector	(5,865)	(18,271)	(10,344)	(8,355)	(3,241)	270

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".

					As of December 31, 2014			As of December 31, 2013
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity[(2)]	Total fair value	Internal rate of return	Average effective term to maturity[(2)]
				In %	In years		In %	In years
1,392	77	498	117,262	3.43	0.88	103,110	3.85	0.59
80	-	-	74,729		1.19	60,543		1.25
-	-	-	7,967		0.73	5,596		0.73
1,472	77	498	199,958		0.99	169,249		0.83
515	231	-	106,774	0.67	0.48	100,957	1.31	0.39
89	-	-	82,788		1.38	60,545		1.55
-	-	-	8,914		0.85	6,318		0.85
604	231	-	198,476		0.87	167,820		0.83
868	(154)	498	1,482			1,429		
1,138	984	1,482	1,482					

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
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)	1,521	2,676	11,594	20,829	12,924	3,726
Financial derivatives (other than options)	89	259	390	741	775	1,364
Total fair value	1,610	2,935	11,984	21,570	13,699	5,090
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	3,963	1,975	4,813	12,714	8,524	6,615
Financial derivatives (other than options)	606	695	4,377	1,844	1,815	1,276
Total fair value	4,569	2,670	9,190	14,558	10,339	7,891
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(2,959)	265	2,794	7,012	3,360	(2,801)
Cumulative exposure in sector	(2,959)	(2,694)	100	7,112	10,472	7,671

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.

	10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity(2)	Total fair value	Internal rate of return	Average effective term to maturity(2)
					As o f December 31, 2014		As of December 31, 2013		
					In %	In years		In %	In years
	1,026	38	293	54,627	2.60	2.66	54,401	2.36	3.01
	-	-	-	3,618		3.16	3,829		3.54
	1,026	38	293	58,245		2.69	58,230		3.04
	1,965	-	2	40,571	0.96	3.37	38,996	1.65	3.74
	4	-	-	10,617		1.68	12,787		1.54
	1,969	-	2	51,188		3.02	51,783		3.20
	(943)	38	291	7,057			6,447		
	6,728	6,766	7,057	7,057					

Management Discussion - Addendum D - 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	1-3 years	3-5 years	5-10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [2]	10,275	5,348	2,292	574	216	908
Financial derivatives (other than options)	30,081	22,868	19,739	4,103	2,672	6,676
Options (in terms of underlying asset)	1,904	4,119	3,490	144	123	-
Total fair value	42,260	32,335	25,521	4,821	3,011	7,584
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [2]	16,730	9,013	9,043	502	68	152
Financial derivatives (other than options)	16,540	10,855	30,705	4,821	2,810	6,494
Options (in terms of underlying asset)	2,247	2,296	3,688	237	123	-
Total fair value	35,517	22,164	43,436	5,560	3,001	6,646
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	6,743	10,171	(17,915)	(739)	10	938
Cumulative exposure in sector	6,743	16,914	(1,001)	(1,740)	(1,730)	(792)

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.

	10 to 20 years	Over 20 years	Without maturity	Total fair value	As of December 31, 2014 Internal rate of return	As of December 31, 2014 Average effective term to maturity(3)	Total fair value	As of December 31, 2013 Internal rate of return	As of December 31, 2013 Average effective term to maturity(3)
					In %	In years		In %	In years
	20	64	159	19,856	2.46	0.77	18,142	2.32	0.55
	22	-	-	86,161		1.53	52,785		1.62
	-	-	-	9,780		0.42	6,262		0.42
	42	64	159	115,797		1.31	77,189		1.27
	8	-	1	35,517	0.61	0.33	28,132	0.25	0.27
	11	-	-	72,236		0.90	44,137		1.25
	-	-	-	8,591		0.44	5,159		0.44
	19	-	1	116,344		0.69	77,428		0.84
	23	64	158	(547)			(239)		
	(769)	(705)	(547)	(547)					

Management Discussion - Addendum D - 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)	-	(4)	-	-	-	-
Total fair value	-	(4)	-	-	-	-
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(2)	101,895	11,228	17,635	26,716	19,829	10,875
Financial derivatives (other than options)	38,876	28,701	51,989	15,784	10,827	18,229
Options (in terms of underlying asset)	4,115	6,229	6,843	314	246	-
Total fair value	144,886	46,158	76,467	42,814	30,902	29,104
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	102,939	14,783	23,604	18,348	11,199	9,267
Financial derivatives (other than options)	38,364	28,930	53,205	15,876	10,973	18,189
Options (in terms of underlying asset)	5,664	4,419	6,852	328	246	-
Total fair value	146,967	48,132	83,661	34,552	22,418	27,456
Financial instruments, net						
Total exposure to interest rate fluctuations	(2,081)	(1,974)	(7,194)	8,262	8,484	1,648
Total cumulative exposure	(2,081)	(4,055)	(11,249)	(2,987)	5,497	7,145

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.

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 Directives. 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.

	10 to 20 years	Over 20 years	Without maturity	Total fair value	As of December 31, 2014 Internal rate of return	Average effective term to maturity(3)	Total fair value	As of December 31, 2013 Internal rate of return	Average effective term to maturity(3)
					In %	In years		In %	In years
	-	-	-	(4)	-	-	(1)	-	-
	-	-	-	(4)	-	-	(1)	-	-
	2,438	179	950	191,745	2.92	1.38	175,653	3.23	1.33
	102	-	-	164,508		1.41	117,157		1.49
	-	-	-	17,747		0.56	11,858		0.57
	2,540	179	950	374,000		1.35	304,668		1.37
	2,488	231	3	182,862	0.87	1.09	168,085	1.21	1.15
	104	-	-	165,641		1.19	117,469		1.44
	-	-	-	17,509		0.65	11,477		0.67
	2,592	231	3	366,012		1.12	297,031		1.24
	(52)	(52)	947	7,988			7,636		
	7,093	7,041	7,988	7,988					

Management Discussion - Addendum E

Credit Risk by Economic Sector - Consolidated

As of December 31, 2014

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	625	192	817	-	1
Industry	5,727	3,057	8,784	-	442
Construction and real estate - construction[6]	9,169	17,159	26,328	16	3
Construction and real estate - real estate operations	2,266	230	2,496	-	1
Power and water	700	443	1,143	1	376
Commerce	6,549	2,308	8,857	-	42
Hotel and food services	625	133	758	-	4
Transport and storage	1,128	338	1,466	-	14
Communications and computer services	981	454	1,435	-	20
Financial services	3,431	9,608	13,039	-	1,554
Other business services	2,511	752	3,263	-	2
Public and community services	928	387	1,315	-	29
Total commercial credit risk	34,640	35,061	69,701	17	2,488
Private individuals - housing loans	95,906	6,273	102,179	-	-
Private individuals - other	14,801	10,790	25,591	-	19
Total	145,347	52,124	197,471	17	2,507
For borrowers' activities overseas	3,565	1,197	4,762	48	50
Total credit risk to public	148,912	53,321	202,233	65	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	14,260	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 risk amounting to NIS 1,423 million and off-balance sheet risk amounting to NIS 1,747 million extended to certain purchase groups which are in the process of construction.
(7) Credit risk whose rating as of the report date matches the rating for extending new credit according to Bank policy. In conformity with the Supervisor of Banks' directives, the regulation would be applied prospectively starting with 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 rating	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit loss
-	818	803	15	11	1	(1)	7
134	9,360	9,271	89	75	(14)	1	86
2	26,349	26,042	307	245	(59)	(14)	148
-	2,497	2,238	259	255	169	99	91
103	1,623	1,622	1	1	1	-	3
36	8,935	8,732	203	141	20	21	102
4	766	749	17	7	8	3	14
8	1,488	1,448	40	35	(8)	(1)	13
6	1,461	1,456	5	1	-	-	6
2,073	16,666	16,547	119	59	(31)	(16)	89
1	3,266	3,219	47	18	16	9	35
41	1,385	1,359	26	19	(2)	(5)	9
2,408	74,614	73,486	1,128	867	101	96	603
-	102,179	101,231	948	3	6	22	624
70	25,680	25,361	184	74	93	52	189
2,478	202,473	200,078	2,260	944	200	170	1,416
40	4,900	4,885	15	9	(18)	(15)	29
2,518	207,373	204,963	2,275	953	182	155	1,445
714	8,494	8,494	-	-	(9)	(4)	5
-	14,213	14,213	-	-	-	-	-
3,232	230,080	227,670	2,275	953	173	151	1,450

Management Discussion - Addendum E - continued

Credit Risk by Economic Sector - Consolidated

As of December 31, 2013

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[7]
Agriculture	563	190	753	-	-
Industry	5,832	3,773	9,605	51	61
Construction and real estate - construction[6]	[7]9,019	16,005	25,024	24	3
Construction and real estate - real estate operations	[7]2,003	274	2,277	-	1
Power and water	631	290	921	17	472
Commerce	6,625	1,938	8,563	-	30
Hotel and food services	488	151	639	-	-
Transport and storage	1,014	396	1,410	-	5
Communications and computer services	1,221	667	1,888	-	16
Financial services	3,181	7,037	10,218	-	754
Other business services	2,411	826	3,237	-	2
Public and community services	867	307	1,174	-	112
Total commercial credit risk	33,855	31,854	65,709	92	1,456
Private individuals - housing loans	88,289	4,164	92,453	-	-
Private individuals - other	13,413	10,282	23,695	-	4
Total	135,557	46,300	181,857	92	1,460
For borrowers' activities overseas	4,323	950	5,273	40	31
Total credit risk to public	139,880	47,250	187,130	132	1,491
Banking corporations	[7]3,143	20	3,163	348	2,115
Government	[7]305	10	315	6,502	-
Total credit risk	143,328	47,280	190,608	6,982	3,606

(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 70 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 risk amounting to NIS 1,409 million and off-balance sheet risk amounting to NIS 1,339 million extended to certain purchase groups which are in the process of construction.
(7) 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
-	753	6	5	(1)	1	6
240	9,957	279	95	59	12	103
5	25,056	[7]463	[7]407	(19)	3	181
-	2,278	[7]423	[7]414	(3)	-	15
356	1,766	2	2	-	-	1
63	8,656	246	151	8	44	110
-	639	14	5	5	3	10
18	1,433	30	26	(3)	-	20
39	1,943	46	42	(2)	1	7
1,037	12,009	174	171	(6)	56	109
4	3,243	35	21	15	19	30
189	1,475	24	15	(1)	(1)	6
1,951	69,208	1,742	1,354	52	138	598
-	92,453	1,078	2	185	365	640
9	23,708	206	83	57	63	148
1,960	185,369	3,026	1,439	294	566	1,386
119	5,463	88	35	(6)	(1)	32
2,079	190,832	3,114	1,474	288	565	1,418
1,505	7,131	-	-	-	-	10
-	6,817	-	-	-	-	-
3,584	204,780	3,114	1,474	288	565	1,428

Management Discussion - Addendum F

Exposure to Foreign Countries - Consolidated[(1)]

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower:

As of December 31, 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.

(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.
(5) Re-classified.

Management Discussion - Addendum F - continued

Exposure to Foreign Countries - Consolidated[1]

Reported amounts (NIS in millions)

													As of December 31, 2013
	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	[5]703	898	1,259	[5]289	[5]289	-	2,860	27	16	1,750	-	1,913	947
France	-	402	726	845	274	571	1,699	6	9	1,048	-	350	778
UK	-	159	1,504	-	-	-	1,663	16	-	510	-	486	1,177
Other	-	970	1,704	-	-	-	2,674	61	2	1,860	-	1,596	1,078
Total exposure to foreign countries	703	2,429	5,193	1,134	563	571	8,896	110	27	5,168	-	4,345	3,980
Of which: Total exposure to LDC countries	-	37	486	-	-	-	523	4	-	249	-	180	343
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	61	-	-	-	63	-	-	4	-	20	43

(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.
(5) Re-classified.

Management Discussion - Addendum F - 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:

	Balance sheet exposure	Off-balance sheet exposure
Germany	724	1,003

As of December 31, 2013, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

Part C - Information regarding balance sheet exposure to foreign countries facing liquidity issues

Movement in balance sheet exposure to foreign countries facing liquidity issues:

	For the 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

	For the year ended December 31, 2013			
	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

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

Management Discussion - Addendum G
Consolidated Balance Sheet – Multi-quarter information

As of the end of each quarter in 2014

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	26,798	26,139	27,181	29,684
Securities	14,259	12,579	9,744	6,519
Securities loaned or sold in repurchase agreements	107	70	112	297
Loans to the public	148,912	148,003	144,646	142,359
Provision for credit losses	(1,343)	(1,304)	(1,293)	(1,298)
Loans to the public, net	147,569	146,699	143,353	141,061
Loans to the Government	307	299	285	302
Investments in associates	52	64	61	60
Buildings and equipment	1,702	1,668	1,658	1,655
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivatives	5,602	5,367	3,467	3,280
Other assets	2,081	2,169	2,210	1,809
Total assets	198,564	195,141	188,158	184,754
Liabilities and Shareholders' Equity				
Deposits from the public	152,379	150,648	148,063	145,701
Deposits from banks	1,258	1,727	1,523	2,106
Deposits from the Government	55	56	56	61
Securities loaned or sold in conjunction with repurchase agreements	223	-	-	-
Debentures and subordinated notes	20,580	21,059	19,120	17,887
Liabilities with respect to derivatives	6,497	5,060	3,303	3,002
Other liabilities	6,072	5,302	5,176	5,376
Total liabilities	187,064	183,852	177,241	174,133
Equity attributable to equity holders of the Bank	10,987	10,779	10,418	10,130
Non-controlling interest	513	510	499	491
Total equity	11,500	11,289	10,917	10,621
Total liabilities and shareholders' equity	198,564	195,141	188,158	184,754

Management Discussion - Addendum G - continued
Consolidated Balance Sheet – Multi-quarter information

As of the end of each quarter in 2013

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	26,060	21,743	23,640	18,024
Securities	7,000	7,431	6,661	9,374
Securities loaned or sold in repurchase agreements	70	153	37	194
Loans to the public	139,880	138,112	134,242	132,118
Provision for credit losses	(1,315)	(1,365)	(1,389)	(1,575)
Loans to the public, net	138,565	136,747	132,853	130,543
Loans to the Government	305	304	300	307
Investments in associates	60	62	62	61
Buildings and equipment	1,656	1,634	1,631	1,632
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivatives	3,606	3,180	3,412	3,701
Other assets	2,204	1,991	1,920	1,634
Total assets	179,613	173,332	170,603	165,557
Liabilities and Shareholders' Equity				
Deposits from the public	141,244	135,863	135,699	130,117
Deposits from banks	2,041	1,950	2,106	2,054
Deposits from the Government	62	77	89	98
Debentures and subordinated notes	16,443	16,542	14,807	14,845
Liabilities with respect to derivatives	3,538	3,378	3,259	3,752
Other liabilities	5,950	5,473	4,838	5,131
Total liabilities	169,278	163,283	160,798	155,997
Equity attributable to equity holders of the Bank	9,852	9,574	9,341	9,108
Non-controlling interest	483	475	464	452
Total equity	10,335	10,049	9,805	9,560
Total liabilities and shareholders' equity	179,613	173,332	170,603	165,557

Management Discussion - Addendum H

Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2014

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues[(1)]	1,248	1,469	1,639	991
Interest expenses	402	576	716	278
Interest revenues, net	846	893	923	713
Expenses with respect to credit losses	150	5	23	(5)
Interest revenues, net after expenses with respect to credit losses	696	888	900	718
Non-interest revenues				
Non-interest financing revenues (expenses)	43	51	(2)	81
Commissions[(2)]	364	345	338	348
Other revenues	19	9	7	9
Total non-interest revenues	426	405	343	438
Operating and other expenses				
Payroll and associated expenses	453	498	462	456
Maintenance and depreciation of buildings and equipment	176	181	177	171
Other expenses	137	113	108	100
Total operating and other expenses	766	792	747	727
Pre-tax profit	356	501	496	429
Provision for taxes on profit	139	189	187	158
After-tax profit	217	312	309	271
Share in net profit (loss) of associates, after tax	(1)	3	2	1
Net profit:				
Before attribution to non-controlling interest	216	315	311	272
Attributable to non-controlling interest	(3)	(11)	(9)	(8)
Attributable to equity holders of the Bank	213	304	302	264
Earnings per Ordinary share (in NIS)[(1)]				
Basic earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	0.92	1.32	1.31	1.15
Diluted earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	0.92	1.31	1.30	1.14

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

(2) Share of NIS 0.1 par value.

Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2013

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues	1,267	2,058	1,704	1,413
Interest expenses	483	1,053	831	611
Interest revenues, net	784	1,005	873	802
Expenses with respect to credit losses	5	68	181	34
Interest revenues, net after expenses with respect to credit losses	779	937	692	768
Non-interest revenues				
Non-interest financing revenues (expenses)	23	(90)	48	33
Commissions	374	356	360	368
Other revenues	6	8	8	5
Total non-interest revenues	403	274	416	406
Operating and other expenses				
Payroll and associated expenses	491	471	429	445
Maintenance and depreciation of buildings and equipment	173	172	172	166
Other expenses	115	112	105	106
Total operating and other expenses	779	755	706	717
Pre-tax profit	403	456	402	457
Provision for taxes on profit	140	143	145	164
After-tax profit	263	313	257	293
Share in net profit (loss) of associates, after tax	(4)	1	1	(2)
Net profit:				
Before attribution to non-controlling interest	259	314	258	291
Attributable to non-controlling interest	(7)	(13)	(13)	(11)
Attributable to equity holders of the Bank	252	301	245	280
Earnings per Ordinary share (in NIS)(1)				
Basic earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	1.10	1.32	1.07	1.23
Diluted earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	1.09	1.31	1.06	1.22

(1) Share of NIS 0.1 par value.

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. ("the Bank") for 2014 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.

4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:

A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

B. We have set such internal controls over financial reporting, or had them set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal 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
March 9, 2015

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. ("the Bank") for 2014 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.

4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:

A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

B. We have set such internal controls over financial reporting, or had them set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal 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
March 9, 2015

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Regulations with regard to "Report of the Board of Directors"). The Bank's internal control system has been designed to provide the Bank's Board of Directors and management with a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of their design -all internal control systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitors execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal control system over financial reporting as of December 31, 2014 based on criteria prescribed by the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2014, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2014 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co. ,as noted in their report on page 308, which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2014.

Moshe Vidman	Eldad Fresher	Menahem Aviv
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:
Ramat Gan, March 9, 2015

Financial Statements

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Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi-Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2014 based on criteria prescribed under the integrated framework for internal control (1992) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of these internal controls over financial reporting which is included in the attached report of the Board of Directors and management with regard to internal controls over financial reporting, enclosed herewith. We are responsible for our opinion of the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 6.98% and 8.74%, respectively, of the relevant amounts on the consolidated financial statements as of December 31, 2014 and for the year then ended. The effectiveness of internal controls over financial reporting at these subsidiaries was audited by other independent auditors, whose reports have been provided to us and our opinion, in as much as it refers to the effectiveness of internal controls over financial reporting at these subsidiaries, is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to design and execute the audit so as to achieve a reasonable degree of certainty as to the existence of effective internal controls over financial reporting, in all material aspects. Our audit included: understanding of the internal controls over financial reporting, evaluation of the risk of existence of any material weakness, testing and evaluation of the effective design and operation of internal controls based on the evaluated risk. Our audit also included additional procedures which we believed to be necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflect transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to their apparent limitations, internal controls over financial reporting may fail to prevent or discover any misrepresentation. Also, drawing conclusions about the future on the basis of any evaluation of current effectiveness is subject to the risk that controls may become inappropriate due to changes in circumstances or due to negative changes in the extent to which policies or procedures are adhered to.

We believe that the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2014 based on criteria prescribed in the integrated framework for internal controls (1992) published by COSO.

We have also audited, in accordance with audit standards generally accepted in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's financial statements (and consolidated financial statements) as of December 31, 2014 and 2013 and for each of the three years ended December 31, 2014, and our report dated March 9, 2015 includes our unqualified opinion on the aforementioned financial statements, based on our audit and on reports of other independent auditors, as well as drawing attention to claims filed against the Bank, including motions to grant class action status and to the inquiry by the US Ministry of Justice concerning Bank Group business with US clients.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, March 9, 2015

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying balance sheets of Mizrahi Tefahot Limited ("the Bank") as of December 31, 2014 and 2013, and the consolidated balance sheets as of such dates, and the statements of profit and loss, statements of comprehensive income, statements of changes in shareholders' equity and cash flow statements – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2014. The Bank Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion of these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 6.98% and 7.5% of total consolidated assets as of December 31, 2014 and 2013, respectively and whose net interest revenues before expenses with respect to credit losses, included on the consolidated statements of profit and loss, account for 8.74%, 6.82% and 5.34%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2014, 2013 and 2012, respectively. Furthermore, we have not audited the financial statements of an associate, the investment in which amounts to NIS 19 million as of December 31, 2014 and 2013. The financial statements of these companies were audited by other independent auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other independent auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above financial statements present fairly, in all material respects, the financial position - of the Bank and on a consolidated basis – as of December 31, 2014 and 2013, and the results of operations, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2014, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to:

1. Note 19.D.11)A.-B. with regard to lawsuits filed against the Bank, including motions for class action status.
2. Note 19.D.13) with regard to the inquiry by the US Ministry of Justice concerning Bank Group business with US clients.

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2014, based on criteria specified in the integrated framework for internal control published by COSO, and our report dated March 9, 2015 included an unqualified opinion as to the effectiveness of internal controls over financial reporting at the Bank.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.

Certified Public Accountants

Tel Aviv, March 9, 2015

Balance sheet – consolidated and the Bank – as of December 31

Reported amounts (NIS in millions)

	Note	Consolidated		The Bank	
		2014	2013	2014	2013
Assets					
Cash and deposits with banks	2	26,798	26,060	22,425	21,121
Securities(1)	15, 3	14,259	7,000	12,053	5,046
Securities loaned or sold in repurchase agreements	15	107	70	107	70
Loans to the public	4	148,912	139,880	141,265	132,894
Provision for credit losses	4	(1,343)	(1,315)	(1,293)	(1,287)
Loans to the public, net		147,569	138,565	139,972	131,607
Loans to Governments	5	307	305	307	305
Investments in investees (consolidated - associates)	6	52	60	2,516	2,366
Buildings and equipment	7	1,702	1,656	1,516	1,498
Intangible assets and goodwill	6.D.	87	87	-	-
Assets with respect to derivatives	19.E.	5,602	3,606	5,600	3,602
Other assets	8	2,081	2,204	1,890	2,064
Total assets		198,564	179,613	186,386	167,679
Liabilities and Shareholders' Equity					
Deposits from the public	9	152,379	141,244	151,834	137,756
Deposits from banks	10	1,258	2,041	8,333	7,915
Deposits from the Government		55	62	46	51
Securities loaned or sold in conjunction with repurchase agreements		223	-	223	-
Debentures and subordinated notes	11	20,580	16,443	3,777	3,985
Liabilities with respect to derivatives	19.E.	6,497	3,538	6,496	3,537
Other liabilities(2)	12	6,072	5,950	4,690	4,583
Total liabilities		187,064	169,278	175,399	157,827
Equity attributable to equity holders of the Bank		10,987	9,852	10,987	9,852
Non-controlling interest		513	483	-	-
Total equity	13	11,500	10,335	10,987	9,852
Total liabilities and shareholders' equity		198,564	179,613	186,386	167,679

(1) Of which: NIS 8,896 million at fair value on consolidated basis (December 31, 2013 - NIS 5,131 million) and for the Bank - NIS 8,541 million (December 31, 2013 - NIS 4,948 million).

(2) Of which: provision for credit losses with respect to off-balance sheet credit instruments, consolidated - NIS 102 million (on December 31, 2013 - NIS 103 million) and at the Bank - NIS 101 million (on December 31, 2013 - NIS 102 million).

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, March 9, 2015

Statement of Profit and Loss - Consolidated and the Bank

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	Consolidated			The Bank		
		2014	2013	2012	2014	2013	2012
Interest revenues	22	[(1)]5,347	6,442	6,591	[(1)]4,962	6,049	6,158
Interest expenses	22	1,972	2,978	3,377	2,022	3,046	3,355
Interest revenues, net		3,375	3,464	3,214	2,940	3,003	2,803
Expenses with respect to credit losses	4.A.	173	288	276	150	283	277
Interest revenues, net after expenses with respect to credit losses		3,202	3,176	2,938	2,790	2,720	2,526
Non-interest revenues							
Non-interest financing revenues	23	173	14	95	157	26	82
Commissions	24	[(1)]1,395	1,458	1,452	[(1)]1,144	1,202	1,180
Other revenues	25	44	27	26	33	19	20
Total non-interest revenues		1,612	1,499	1,573	1,334	1,247	1,282
Operating and other expenses							
Payroll and associated expenses	26	1,869	1,836	1,701	1,629	1,578	1,474
Maintenance and depreciation of buildings and equipment		705	683	652	616	588	566
Other expenses	27	458	438	433	338	326	318
Total operating and other expenses		3,032	2,957	2,786	2,583	2,492	2,358
Pre-tax profit		1,782	1,718	1,725	1,541	1,475	1,450
Provision for taxes on profit	28	673	592	599	602	515	516
After-tax profit		1,109	1,126	1,126	939	960	934
Share in profits (losses) of investees (on consolidated - associates), after tax effect	6.B.	5	(4)	-	144	118	142
Net profit:							
Before attribution to non-controlling interest		1,114	1,122	1,126	1,083	1,078	1,076
Attributable to non-controlling interest		(31)	(44)	(50)	-	-	-
Attributable to equity holders of the Bank		1,083	1,078	1,076	1,083	1,078	1,076

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

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

Statement of Profit and Loss - Consolidated and the Bank - continued
For the year ended December 31,
Reported amounts

	Note	2014	2013	2012
Earnings per share[(1)]	29			
Basic earnings per share (in NIS)				
Net profit attributable to equity holders of the Bank		4.70	4.72	4.77
Diluted earnings per share (in NIS)				
Net profit attributable to equity holders of the Bank		4.68	4.69	4.74

(1) Share of NIS 0.1 par value each.

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

Consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	2014	2013	2012
Net profit:			
Before attribution to non-controlling interest	1,114	1,122	1,126
Attributable to non-controlling interest	(31)	(44)	(50)
Net profit attributable to equity holders of the banking corporation	1,083	1,078	1,076
Other comprehensive income (loss) before taxes			
Adjustments for presentation of available-for-sale securities at fair value, net	(10)	22	73
Adjustments from translation of financial statements	6	(3)	-
Net gain (loss) with respect to cash flow hedges	23	-	(22)
Total other comprehensive income (loss), before tax	19	19	51
Related tax effect	(7)	(10)	(18)
Cumulative Other Comprehensive income (loss):			
Before attribution to non-controlling interest, after tax	12	9	33
Attributable to non-controlling interest, after tax	1	2	(3)
Other comprehensive income attributable to equity holders of the banking corporation, after taxes	13	11	30
Comprehensive income:			
Before attribution to non-controlling interest	1,126	1,131	1,159
Attributable to non-controlling interest	(30)	(42)	(53)
Comprehensive income attributable to equity holders of the Bank	1,096	1,089	1,106

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
Balance as of January 1, 2012	2,003	155	(76)	2,082
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	11	-	11
Related tax effect	-	28	-	28
Realized share-based payment transactions[2]	55	(55)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of December 31, 2012	2,058	139	(76)	2,121
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from 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	-	-	-	-
Balance as of December 31, 2013	2,108	116	(76)	2,148
Net profit for the period	-	-	-	-
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	-	-	-	-
Balance as of December 31, 2014	2,197	66	(76)	2,187

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

(2) In 2014, the Bank issued 1,240,933 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan. In 2013, the Bank issued 2,378,980 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan. In 2012, the Bank issued 1,948,544 ordinary shares of NIS 0.1 par value each, each, for exercise of options pursuant to the Employee Stock Option Plan.

(3) For details see Note 31 - Cumulative Other Comprehensive Income.

(4) For details on various limitations on dividend distributions, see Note 13 below.

(5) For details of adoption of US GAAP for employee rights, see section Note 1.AA.1.

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

Cumulative other comprehensive income[3]	Retained earnings[4]	Total	Non-controlling interest	Total shareholders' equity
(30)	5,614	7,666	388	8,054
-	1,076	1,076	50	1,126
-	-	11	-	11
-	-	28	-	28
-	-	-	-	-
30	-	30	3	33
-	6,690	8,811	441	9,252
-	1,078	1,078	44	1,122
-	(75)	(75)	-	(75)
-	-	14	-	14
-	-	13	-	13
-	-	-	-	-
11	-	11	(2)	9
[5]11	[5]7,693	9,852	483	10,335
-	1,083	1,083	31	1,114
-	-	40	-	40
-	-	(1)	-	(1)
-	-	-	-	-
13	-	13	(1)	12
[5]24	[5]8,776	10,987	513	11,500

Statement of Cash Flows - Consolidated and the Bank

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Cash flows provided by current operations						
Net profit for the period	1,114	1,122	1,126	1,083	1,078	1,076
Adjustments:						
Share of the Bank in un-distributed earnings (loss) of associates	(5)	4	-	(144)	(118)	(142)
Depreciation of buildings and equipment	246	243	230	220	215	207
Expenses with respect to credit losses	173	288	276	150	283	277
Profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	(193)	32	(244)	(213)	33	(160)
Impairment of securities held for sale	2	3	8	2	3	8
Realized and unrealized gain from adjustment to fair value of securities held for trading	(4)	(38)	(44)	(4)	(38)	(44)
Profit from sale of buildings and equipment	(10)	-	-	(10)	-	-
Benefit from share-based payment transactions	40	14	11	40	14	11
Deferred taxes, net	50	(80)	17	53	(86)	6
Severance pay - decrease (increase) in excess of amount funded over liability	(21)	5	(8)	(15)	(10)	(8)
Effect of change in exchange rate on cash balances	(545)	332	66	(515)	311	63
Net change in current assets						
Deposits with banks	346	(1)1,322	(1,296)	(10)	(1)470	(39)
Loans to the public	(9,177)	(10,202)	(9,669)	(8,515)	(9,584)	(9,296)
Loans to Governments	(2)	12	(121)	(2)	12	(121)
Securities loaned or sold in repurchase agreements	(37)	137	(71)	(37)	137	(71)
Assets with respect to derivatives	(1,973)	(88)	(425)	(1,975)	(84)	(432)
Securities held for trade	522	780	(1,064)	522	778	(1,065)
Other assets, net	90	(87)	(689)	138	(73)	(660)
Net change in current liabilities						
Deposits from banks	(783)	347	(313)	418	(289)	993
Deposits from the public	11,135	13,163	9,263	14,078	14,960	10,099
Deposits from the Government	(7)	(45)	(45)	(5)	(42)	(48)
Liabilities with respect to derivatives	223	-	-	223	-	-
Other liabilities	2,959	(235)	(191)	2,959	(236)	(183)
Accrual differences included under investment and financing operations	115	644	208	88	549	112
Unearned revenues	(98)	454	73	(39)	266	(36)
Net cash provided by current operations	4,160	8,127	(2,902)	8,490	8,549	547

(1) Reclassified.

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

Statement of Cash Flows - Consolidated and the Bank - continued
For the year ended December 31,
Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Cash flows provided by investment operations						
Acquisition of debentures held to maturity	(3,477)	(646)	(420)	(3,400)	-	-
Proceeds on redemption of debentures held to maturity	-	-	25	-	-	-
Acquisition of securities available for sale	(12,930)	(2,942)	(7,479)	(12,715)	(2,942)	(6,581)
Proceeds from sale of securities available for sale	8,658	4,197	7,898	8,647	2,761	6,786
Proceeds from redemption of securities available for sale	153	674	819	124	638	606
Acquisition of buildings and equipment	(298)	(236)	(228)	(244)	(203)	(200)
Proceeds from sale of buildings and equipment	21	-	-	21	-	-
Proceeds from realized investments in associates	17	(6)	(8)	25	(6)	(8)
Net cash provided by investment operations	(7,856)	1,041	607	(7,542)	248	603
Cash flows provided by financing operations						
Issuance of debentures and subordinated notes	5,809	3,007	2,161	-	-	-
Redemption of debentures and subordinated notes	(1,574)	(1,057)	(397)	(169)	(406)	(414)
Dividends paid to shareholders	-	(75)	-	-	(75)	-
Net cash provided by financing operations	4,235	1,875	1,764	(169)	(481)	(414)
Increase (decrease) in cash	539	11,043	(531)	779	8,316	736
Cash balance at beginning of year	25,105	14,394	14,991	20,947	12,942	12,269
Effect of change in exchange rate on cash balances	545	(332)	(66)	515	(311)	(63)
Cash balance at end of period	26,189	(1)25,105	14,394	22,241	(1)20,947	12,942
Interest and taxes paid / received						
Interest received	5,929	6,596	6,602	5,086	6,085	6,139
Interest paid	1,760	3,032	3,270	2,509	3,079	3,301
Dividends received	8	1	24	8	1	24
Taxes on income received	80	5	-	79	1	-
Taxes on income paid	800	654	556	705	623	528
Appendix A - Non-cash Transactions						
Acquisition of buildings and equipment	10	5	44	10	5	44

(1) Reclassified.

Notes to financial statements as of December 31, 2014

Note 1 - Reporting Principles and Accounting Policies

A. General

1) The financial statements are prepared in accordance with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidance from the Supervisor of Banks.

2) The notes to the financial statements refer to the financial statements of the Bank, as well as to the consolidated financial statements of the Bank and its subsidiaries, unless a note explicitly states that it refers only to the statements of the Bank, or to the consolidated statements.
   The Bank's Board of Directors authorized publication of these financial statements on March 9, 2015.

3) Definitions:

"Generally Accepted Accounting Principles"	Accounting rules which US banks traded in the USA are required to apply at US banks as stipulated by the ASC 105 codification.
"International Financial Reporting Standards"	Standards and interpretations adopted by the IASB, including International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"IASB"	International Accounting Standards Board.
"FASB"	Financial Accounting Standards Board in the USA.
"The Bank"	Mizrahi-Tefahot Bank Ltd.
"Subsidiaries"	Companies controlled by the banking corporation.
"The Bank Group"	The Bank and its subsidiaries.

Note 1 - Reporting Principles and Accounting Policies - continued

“Associates”	Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investments in associates are included on the financial statements using the equity method.
“Investees”	Subsidiaries and associates.
"Overseas affiliates"	Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency"	The currency of the major economic environment in which the Bank operates. Usually, this is the currency of the environment in which a corporation generates and expends most of the cash.
"Reporting currency"	The currency in which the financial statements are presented.
“Adjusted amount”	The historical nominal amount that was adjusted to changes in economic purchasing power of the Israeli currency.
“Reported amount”	An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
“Cost”	Cost in reported amounts.
"Related parties"	As defined in IAS 24 "Related party disclosures", other than interested parties.
"Interested parties"	As defined in Section 1 of the Securities Act, 1968 and as defined in Section 80b of the Public Reporting Regulations.

Note 1 - Reporting Principles and Accounting Policies - continued

B. Principles of financial reporting

These financial statements have been prepared as follows:

1) As for core banking business issues - the accounting treatment is in accordance with directives of the Supervisor of Banks (hereiafter: "the Supervisor") and in accordance with generally accepted accounting principles for US banks, as adopted in the Supervisor of Banks' Public Reporting Regulations. Core banking business issues were defined by the Supervisor of Banks as financial instruments, including *inter alia*: hedge accounting, revenue recognition. provision for credit losses, contingent liabilities and provisions, presentation of financial statements and segment reporting.

2) As for non core banking business issues - the accounting treatment is in accordance with Israeli GAAP and in accordance with certain International Financial Reporting Standards (IFRS) and the relevant IFRIC interpretations.

In conformity with public reporting regulations of the Supervisor of Banks, international standards are applied based on the following principles:

- In cases where a material issue arises, which is not addressed by the international standards or by application directives issued by the Supervisor of Banks, the Group shall treat the issue in accordance with generally accepted accounting principles at US banks which specifically apply to these issues.
- In cases where no specific reference is made in the standards or interpretations of material issues, or where there are multiple alternatives for handling a material issue, the Group shall act in accordance with specific application directives issued by the Supervisor of Banks.
- In cases where the adopted international standard makes reference to another international standard adopted under the public reporting directives, the Group shall act in accordance with provisions of the international standard.
- In cases where the adopted international standard makes reference to an international standard not adopted under the public reporting directives, the Group shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the adopted international standard makes reference to definition of a term also defined in the public reporting directives, the reference to the definition in the directives shall replace the original reference.

3) Functional currency and reporting currency

The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the primary economic environment in which the Bank does business. For information about the functional currency of overseas banking affiliates, see section D. below.

4) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:

- Financial derivatives and other financial instruments measured at fair value in the statement of profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Share-based payments;
- Non-current assets held for sale and asset groups held for sale;
- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employee benefits;
- Investments in associates

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

5) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact policies implementation and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.

When making accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In exercising its judgment when making these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.

These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.

On January 19, 2015, the Supervisor of Banks issued a directive with regard to group-based provisions for credit losses, including credit to individuals. For more information see section C.3. below.

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

For periods starting on or after January 1, 2014, the Bank first applies accounting standards and directives of the Supervisor of Banks. Below is a description of the substance of changes in accounting policies on the financial statements and a description of the effect of their initial application, if any:

1. Directive with regard to format of statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues

On December 29, 2011, the Supervisor of Banks published a circular designed to adapt the Public Reporting Regulations to US GAAP with regard to non-refundable fees and other costs (ASC 310-20, FAS91) (hereinafter: “the directive”).

The directive specifies rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria stated in the directive would not be immediately recognized in the statement of profit and loss, but rather would be accounted for in calculating the effective interest rate for the loan.

The directive changes the treatment of commissions and costs associated with a commitment to extend credit and also stipulates rules for treatment of changes in terms of debt which does not constitute restructuring of troubled debt, treatment of early repayment of debt and treatment of other transactions to extend credit, such as syndication transactions.

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-troubled debt, the Bank reviews whether a material change was made to terms and conditions of the loan. Accordingly, the Bank reviews whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions, or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of the net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

According to transitional provisions for implementation of the directive, dated October 17, 2013, early repayment commissions charged with respect to early repayment made prior to January 1, 2014 and yet to be amortized, will continue to be recognized over a three-year period.

Commissions charged with respect to early repayment made after January 1, 2014, are immediately recognized under Interest Revenues in conformity with the rules stipulated.

On October 31, 2013, the Supervisor of Banks issued a Q&A file with regard to non-refundable fees and other costs, which stipulates the initial implementation of the FAS 91 standard. *Inter alia*, the file stipulates that banking corporations may not defer internal costs upon loan generation, without prior approval from the Financial Reporting Department of the Supervisor of Banks.

The Bank retroactively applies the directives on format of the statement of profit and loss as from January 1, 2012.

As from January 1, 2014, the Bank prospectively applies the revisions related to adoption of interest revenue measurement (ASC 310-20) (excluding deferral of direct cost incurred upon loan origination) to transactions created or renewed as from January 1, 2014.

Impact of initial application of the directive

As noted, the directive is applied prospectively; therefore, the Bank changed revenue recognition and classification of the indicated commissions under interest revenues or commission revenues, depending on the nature of the commission.

Below is information about the impact of application of the directive on net interest revenues, non-interest revenues (from commissions) and net profit for the Bank for the year ended December 31, 2014 (NIS in millions):

	For the year ended December 31, 2014
	(audited)
	Effect of application of the directive
Interest revenues, net	153
Non-interest (commission) revenues	(92)
Net profit	38

The impact of application is primarily due to deferral of commission revenues with respect to credit extended and discontinuation of scheduling of early repayment commissions and treatment of change in terms of the debt. Furthermore, application of the directive resulted in some reclassification from interest revenues to commission revenues.

2. Amounts reclassified out of Other Comprehensive Income

As from January 1, 2014, the Bank applies the directives stipulated in the Supervisor of Banks' circular with regard to reporting or amounts reclassified out of Other Comprehensive Income. The circular is designed to align the disclosure requirements with regard to reclassification of items out of cumulative other comprehensive income, in line with an update to American accounting standard ASU 2013-02.

According to provisions of the circular, a disclosure is to be provided for any items in the statement of profit and loss which include amounts reclassified from cumulative other comprehensive income to the statement of profit and loss. These provisions will be retroactively applied as from January 1, 2014. Application of provisions of this circular had no impact on the financial statements, other than the change in presentation of the Note on cumulative other comprehensive income.

Note 1 - Reporting Principles and Accounting Policies - continued

3. Group-based provision for credit extended to individuals

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

As stipulated in the circular, the Bank adjusted the group-based provision with respect to credit to individuals and is preparing to develop and apply a calculation method for the group-based provision which accounts for a qualitative adjustment coefficient, as required by the guidelines. In total, the additional qualitative adjustment to the group-based provision with respect to credit to individuals, charged to Expenses with Respect to Credit Losses on the 2014 financial statements, amounted to NIS 54 million before tax. After the qualitative adjustment has been applied, as per the guidelines, the total qualitative adjustment at the Bank is at 0.75% and at Bank Yahav - at 0.5%.

D. Foreign currency and linkage:

1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Bank and its affiliates (NIS) using the exchange rate as of the transaction date. Monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.

Exchange rate differences with respect to monetary items are the differences between the amortized cost in the functional currency as of the start of the year, adjusted for the effective interest and installments during the year, and the amortized cost in foreign currency, translated at the exchange rate as of the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined. Exchange rate differences arising from translation into the functional currency are recognized in the statement of profit and loss, other than differences arising from translation into the functional currency of cash flow hedges, as well as adjustments to fair value of investments of certain funds accounted for using the equity method, which are recognized in the statement of Other Comprehensive Income.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Note 1 - Reporting Principles and Accounting Policies - continued

2) Overseas banking affiliates

Through 1994, affiliates in certain overseas jurisdictions were classified as operations whose functional currency differed from the NIS and foreign currency translation differences were directly recognized in equity, under Translation Differences. As from 1995, according to directives by the Supervisor of Banks prior to adoption of IFRS, an overseas banking affiliate of a banking corporation was classified as a foreign operation whose functional currency is the same as that of the banking corporation.

Pursuant to IAS 21 and to the Supervisor of Banks' circular on this matter, dated February 14, 2012, in order to determine the functional currency, the banking corporation is required to consider, inter alia, the following:

- The currency which primarily affects the selling price of goods and services (usually this would be the currency in which selling prices of goods and services are denominated and settled), and the currency of the country whose competitive forces and regulation primarily determine the selling prices of goods and services.
- The currency which primarily affects labor costs, material and other costs for delivery of goods or services (usually, this would be the currency in which these costs are denominated and settled).
- Other factors which may serve as evidence of the entity's functional currency, such as: The currency in which monetary resources are generated by financing operations, and the currency in which receipts from current operations are usually kept.
- Relations of the affiliate with the Bank - is the foreign operation significantly independent, do transactions between the affiliate and the Bank constitute a large or small percentage of the foreign operation, do cash flows from the foreign operation directly affect the cash flows of the Bank and are readily available to be transferred there to, and are cash flows from the foreign operation sufficient to fund its current and anticipated liabilities in the normal course of business of the entity, without resources being provided by the Bank.
- Does the affiliate recruit clients by itself and is affiliate business with Bank clients (not recruited by the affiliate) not significant
- Affiliate operations with the Bank, such as asset and liability balances or revenues and expenses, are not significant.
- Affiliate operations are essentially independent, stand alone and are not an extension of or complementary to the Group's domestic operations. Furthermore, the affiliate conducts its operations with significant autonomy.

Based on review of these criteria, the Bank continues to treat its overseas banking affiliates as operations whose functional currency is the same as the Bank's (NIS).

Note 1 - Reporting Principles and Accounting Policies - continued

Below is information about official exchange rates, the Consumer Price Index and changes there to:

	As of December 31,			Change in %		
	2014	2013	2012	2014	2013	2012
Consumer Price Index:						
CPI for December (points)	107.4	107.6	105.7	(0.2)	1.8	1.6
Known CPI for November (points)	107.3	107.5	105.5	(0.1)	1.9	1.4
Exchange rate of:						
USD (in NIS)	3.889	3.471	3.733	12.0	(7.0)	(2.3)
EUR (in NIS)	4.725	4.782	4.921	(1.2)	(2.8)	(0.4)

E. Consolidation basis

1) Subsidiaries

Financial statements of subsidiaries are included on the consolidated financial statements from the date control is achieved and through the date control is terminated. Control is the power to determine financial and operational policies of an entity to achieve benefits from its operations. The Bank exercises judgment in determining the acquisition date and whether or not control has been achieved.

Accounting policies of subsidiaries were modified as needed, to align them with the accounting policies adopted by the Group.

2) Attribution of Comprehensive Income to shareholders

Profit or loss and any Other Comprehensive Income items are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and other comprehensive income are attributed to equity holders of the Bank and to non-controlling interests.

3) Investments in associates

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

In conformity with IAS 28, investment in associates is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs. The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and Other Comprehensive Income of investees accounted for using the equity method, after required adjustments to the accounting policies of the associate to align them with those of the Group, from the date on which material influence exists until such material influence ceases to exist.

Note 1 - Reporting Principles and Accounting Policies - continued

The Bank does not make adjustments to accounting policies with regard to core banking business issues (issues where IFRS are yet to be adopted by the Public Reporting Regulations) applied by a non-banking associate which reports in conformity with IFRS.

When the Group's share of loss exceeds the value of the Group's interest in an entity accounted for using the equity method, the carrying amount of these rights (including any long-term investment) is completely written-off, and the Group recognizes no further loss, unless the Group is committed to support the investee, or for which the Group has paid any amounts.

4) Transactions reversed upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from intercompany transactions have been cancelled in the course of preparing the consolidated financial statements. Unrealized gain from transactions with associates have been cancelled against the investment, in accordance with the Group's rights in these investments. Unrealized losses haves been cancelled in the same manner as cancellation of unrealized gains, provided there was no evidence of impairment.

5) Business combinations

The Bank applies the acquisition method to all business combinations.

The acquisition date is the date on which the acquiring entity achieves control over the acquired entity. The Group controls the acquired entity when it is exposed to, or has an interest in variable returns from its involvement with the acquired entity and is able to influence these returns through its influence over the acquired entity. When reviewing for existence of control, we consider the actual interest of the Group and of others.

The Group recognizes goodwill as of the acquisition date at fair value of the consideration, including amounts recognized with respect to any non-controlling interest in the acquired entity, and the fair value as of the acquisition date of equity interest in the acquired entity previously held by the Bank, less the net amount attributed upon acquisition to identifiable assets acquired and liabilities assumed.

In conformity with directives of the Supervisor of Banks, the Bank has adopted the relief specified in sections C4 and C5 of IFRS 1 "First-time Adoption of International Financial Reporting Standards". Accordingly, the Group applies IFRS 3 prospectively to financial statements for periods starting on January 1, 2011, so that no reattribution of excess cost was made for acquisitions prior to application of the standard. Amortization of goodwill with respect to investments made prior to application of the standard was discontinued, and in lieu, the need for making a provision for impairment of other-than-temporary nature is periodically reviewed.

Should any acquisitions be made after January 1, 2011, the Bank would recognize goodwill as of the acquisition date at fair value of the consideration, including amounts with respect to any non-controlling interest in the acquired entity, and the fair value as of the acquisition date of equity interest in the acquired entity previously held by the Bank, less the net amount attributed upon acquisition to identifiable assets acquired and liabilities assumed.

The Bank will recognize upon acquisition a contingent liability assumed upon the business combination, if there is a present obligation due to past events, and its fair value may be reliably measured.

Note 1 - Reporting Principles and Accounting Policies - continued

F. Offset of assets and liabilities

The Bank applies the rules specified in the Supervisor of Banks' circular dated December 12, 2012, which updates the Supervisor of Banks' Public Reporting Regulations with regard to offset of assets and liabilities.

In conformity with the directives, a banking corporation should offset assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are fulfilled:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to those liabilities
- The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

According to the directives, a banking corporation should offset assets and liabilities with two different counter-parties and present the net amount on the balance sheet when all of the aforementioned conditions are fulfilled, and provided that the three parties have an agreement which clearly stipulates the banking corporation's set-off rights with regard to the liabilities.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

A banking corporation should not offset assets with respect to derivatives against liabilities with respect to derivatives, unless all of the aforementioned conditions are fulfilled. However, the directives stipulate that under certain conditions, a banking corporation may offset fair value amounts recognized with respect to derivative instruments and fair value amounts recognized with respect to the right to call cash collateral (receivables) or the commitment to reimburse cash collateral (payables) arising from derivative instruments transacted with the same counter-party in accordance with a master netting arrangement – even if there is no intention to repay on a net basis or concurrently.

Moreover, a banking corporation may offset securities purchased in conjunction with repurchase agreements against securities sold in conjunction with repurchase agreements, if certain conditions specified in US GAAP on this matter are fulfilled.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, the Bank continues to present exposures with transactions on a gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

Note 1 - Reporting Principles and Accounting Policies - continued

G. Statement of cash flows

The statement of cash flows is presented classified under cash flows from current operations, from investment operations and from financing operations. Cash flows from major Bank operations are classified under current operations. Cash and cash equivalents includes cash, deposits with banks, negotiable deposit notes and deposits with central banks with an original term of up to three months.

H. Securities

1) Investments in securities were classified into three categories, as follows:

a) Debentures held to maturity - debentures that the Bank has the intention and ability to hold until the maturity date. These debentures are presented at their amortized cost, i.e. at par value plus accrued interest and linkage or exchange rate differentials, plus or minus the discount or premium component generated upon acquisition and not yet amortized and minus loss with respect to other-than-temporary impairment. Income from debentures held to maturity is charged accordingly to the statement of profit and loss on the accrual basis.

b) Securities held for trade - securities acquired or held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. These securities were included in the balance sheet at fair value as of the reporting date; unrealized gain or loss from adjustment to fair value was charged to the statement of profit and loss.

c) Securities available for sale - securities not classified as debentures held to maturity or as securities held for trade. Securities available for sale are presented in the balance sheet at fair value. Shares having no available fair value are presented at fair value as of the date they were received – which does not exceed their cost – and net of provision for impairment which is not of a temporary nature, which is charged to the statement of profit and loss, as are dividends received from investment in shares available for sale, originating from earnings of a company which are distributed after the investment date.

Any unrealized gain or loss from adjustment to fair value is not included in the statement of profit and loss and are reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income. For securities which include embedded derivatives – see section R.3) below.

Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are recorded to profit and loss when the Bank has the right to receive them, up to the amount of accumulated gain since that investment was acquired.

3) The cost of realized securities is calculated on a FIFO basis, except for securities acquired as part of a hedge, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

4) With regard to calculation of fair value, see section S. below.

5) Impairment:

Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost, is of an other-than-temporary nature. To this end, the following indicators, inter alia, are reviewed:

- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Review of conditions reflecting the financial standing of the issuer, including whether or not the impairment is due to individual reasons related to the issuer, or to any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes an other-than-temporary impairment:

- The security was sold prior to publication of the financial statements for the period.
- The Bank intends, as of the publication of the financial statements for the period, to sell the security within a short time.
- A debenture is significantly impaired between its rating upon acquisition by the Bank and its rating upon publication of the financial statements for the period.
- A debenture is classified by the Bank as troubled after its acquisition.
- A debenture which is in payment default after its acquisition.
- Securities where, in general, their fair value as of the end of the reported period and soon prior to publication of the financial statements, is significantly lower than their cost (amortized cost), or where any payment failure has occurred after their acquisition, unless proven with a high degree of confidence and based on objective evidence, that the impairment is merely of a temporary nature.

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written-off to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis, and would not be revised even if in subsequent reporting periods (after recognizing the impairment) the fair value should increase.

Subsequently to impairment recognition any interest revenues from investments in securities which are debt instruments would generally be recognized on an accrual basis, based on the difference between expected cash flows of the debt instrument and the fair value of the instrument upon impairment (new cost basis).

I. Impaired debt, credit risk and provision for credit losses

1) Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Regulations. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' directive with regard to treatment of troubled debt. Moreover, from the 2012 financial statements, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debt and of provision for credit losses. Furthermore, in conformity with the Supervisor of Banks' circular dated January 19, 2015, the Bank applies the Supervisor of Banks' directives with regard to calculation of the group-based provision for credit losses other than for housing. Application of the guidelines in this circular with regard to the group-based provision with respect to credit to individuals, see section 4) below.

2) Loans to the public and other debt balances

   The directive is applied to all debt balances, including deposits with banks, debentures, securities borrowed or purchased in repurchase agreements, loans to the public, loans to the government etc. Loans to the public and other debt balances (such as: loans to the government, deposits with banks and other assets) are reported on the Bank's accounts at their recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for thatdebt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed.

   As for other debt balances, for which there are specific rules in place with regard to measurement and recognition of a provision for impairment (such as debentures), the Bank continues to apply the same rules for measurement as specified in section H. above.

3) Identification and classification of impaired debt

   The Bank classifies all troubled debt and troubled off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.

Debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank would be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Regulation 314 on troubled debt in housing loans.

Restructuring of troubled debt - Debt which has been formally restructured as troubled debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).

In order to determine whether debt restructuring by the Bank constitutes troubled debt restructuring, the Bank conducts a qualitative review of all restructuring terms and circumstances in order to determine whether the (1) the debtor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the restructuring.

In order to determine whether the creditor is in financial duress, the Bank reviews for indications of the creditor being in financial duress at the time of restructuring, or for reasonable likelihood that the creditor would be in financial duress if not for the restructuring. Inter alia, the Bank reviews the existence of one or more of the following circumstances: As of the debt restructuring date, the borrower is in default, including when any other debt of the borrower is in default; for debt which, as of the restructuring date, is not in arrears, the Bank assesses whether, based on the current repayment capacity, it is likely that in the foreseeable future the borrower would be in default and would fail to comply with original contractual conditions of the debt; the creditor has declared bankruptcy, is in receivership or there is significant doubt as to the borrower continuing as a going concern; and without changes to debt terms, the debtor would not be able to raise funds from other sources at market interest typical for debtors not in default.

The Bank concludes that a concession was made to the creditor in conjunction with the restructuring, even if the contractual interest rate was increased in the restructuring - if one or more of the following exists: Due to the re-structuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debt contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the creditor is unable to raise funds at market rates for debt with similar terms and conditions to those of the re-structured debt.

Note 1 - Reporting Principles and Accounting Policies - continued

The Bank does not classify debt as restructured troubled debt, if in conjunction with the restructuring, it granted to the creditor a delay in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple restructurings took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous restructurings in order to determine whether the delay in payments is not material.

Restructured debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses or accounting write-off. Since the debt being restructured would not be repaid as per its original contractual terms, the debt continues to be classified as impaired debt even after the debtor resumes repayments pursuant to the new terms and conditions.

Reinstatement of impaired debt to non-impaired status - impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
- When the debtor has become well-secured and is in collection proceedings.

Rules governing reinstatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of troubled debt.

Reinstatement of impaired debt to impaired and accruing status - debt which has been formally restructured, so that after restructuring all of the following conditions are fulfilled::

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms and conditions, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms and conditions.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

4) Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures required to maintain, as a separate liability account, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitment to provide credit, unutilized credit facilities and guarantees).

Note 1 - Reporting Principles and Accounting Policies - continued

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit losses.

An individual provision for credit losses is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

For other debt, the Bank may decide whether to make an individual assessment. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. Where debt collection is contingent upon collateral, or if the Bank determines that an asset is expected to be seized, the individual provision for credit losses is estimated based on fair value of the collateral securing said credit. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses - is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, as determined by the Bank) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses from debts based on group estimate, except for housing loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is calculated based on rules specified in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereinafter "FAS 5"), based on guidelines specified in the Public Reporting Regulations. The formula is based on the past loss rate by economic sector, divided into troubled and non-troubled credit, for the 5 years ended on the reporting date, past loss rates reflecting net accounting write-offs actually recognized in these years (as from January 1, 2011) or provision rates with respect to the average debt balance.

The Bank uses the loss rate which is the average of past loss rates within the aforementioned range of years. In addition to the average of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision with respect to loans to the public, the Bank also accounts for other data (qualitative adjustments), including trends in credit volume for each sector as well as sector condition, macro-economic data and general quality assessment of credit to each economic sector.

On January 19, 2015, the Supervisor of Banks issued a circular updating the Public Reporting Regulations with regard to the group-based provision for credit extended to individuals. This directive also contains guidelines for calculation of the group-based provision in other economic sectors. (The credit loss rate will be calculated for each sector based on past losses over a five-year period.)

Furthermore, other than credit risk due to receivables with respect to bank credit cards with no interest charges, the Bank is required to maintain the rate of qualitative adjustments to the group-based provision for credit losses with respect to consumer credit, to be no less than 0.75% of the balance of non-troubled consumer credit. Guidelines in this circular would be applied prospectively.

As stipulated in the circular, the Bank adjusted the group-based provision with respect to credit to individuals and is preparing to develop and apply a calculation method for the group-based provision which accounts for a qualitative adjustment coefficient, as required by the guidelines. In total, the additional qualitative adjustment to group-based provision with respect to credit to individuals, charged to Expenses with Respect to Credit Losses on the 2014 financial statements, amounted to NIS 54 million before tax. After the qualitative adjustment has been applied, as per the guidelines, the total qualitative adjustment at the Bank is at 0.75% and at Bank Yahav - at 0.5% (in conformity with the Supervisor's circular dated January 19, 2015).

In conformity with guidelines statedforth in the interim directive, as from January 1, 2011 the Bank does not maintain a general and additional provision, but rather continues to calculate the additional provision and verifies that in each case, the group-based provision amount at the end of each reporting period is no less than the general and additional provision amount. The minimum provision with respect to housing loans is calculated using the formula specified by the Supervisor of Banks, considering the extent of arrears, so that the provision rate increases with the extent of arrears. Upon the start date of application of the new directive, the amendment to appendix to Proper Conduct of Banking Business Regulation 314 "Troubled debt in housing loans at mortgage banks" became effective, expanding the scope of calculation of the provision by extent of arrears to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Conduct of Banking Business Regulation no. 329, as per the Supervisor of Banks' letter dated March 21, 2013 "Update to guidelines with regard to residential real estate".

In conformity with the directives, guidelines with regard to calculation of the group-based provision for credit losses with respect to housing loans were updated as described below.

In conformity with the Supervisor of Banks' directives, the Bank is required to review, and update as needed, the method for determining the group-based provision for credit losses with respect to housing loans. When reviewing the method, all factors which impact the likelihood of collecting these loans should be taken into consideration. The Bank is also required, as from the second quarter of 2013, to ensure that the group-based provision for credit losses with respect to housing loans shall not be less than 0.35% of the balance of said loans (excluding housing loans provided for by extent of arrears or on individual basis).

Pending application of the new directives as stated above, the balance of the group-based provision with respect to housing loans is derived from the increase in current loans awarded, compared to the past.

The initial adjustment of the group-based provision for credit losses with respect to housing loans, to 0.35%, included in the financial statements for 2013, amounted to NIS 191 million before tax and is regularly updated.

The required provision with regard to off-balance sheet credit instruments is assessed as per rules specified in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), accounting for the expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as prescribed in Proper Conduct of Banking Business Regulation 203 "Measurement and capital adequacy - Credit risk - Standard approach" with certain adjustments.

5) Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of interest revenues in respect of it, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on a cash basis with respect to debt classified as impaired, see section T.1.A. below.

For debt reviewed and provided for on a group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debt is subject to assessment for a provision for credit losses, which ensures that Bank profit is not distorted upwards. Commissions for delinquency of such debt are included as revenues when the Bank has the right to receive them from the client, provided that collection is reasonably secured.

6) Accounting write-off

The Bank makes accounting write-offs of any debt, or part there of, individually assessed as not collectible and of low value, such that maintaining it as an asset is not justified, or any debt which is subject to long-term collection effort by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses amounting to the recorded debt balance in excess of the fair value of the collateral. For debt assessed on a group basis, write-off rules have been put in place based on extent of arrears (mostly - over 150 consecutive days in arrears) and on other parameters of problems. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

7) Policies on the provision for doubtful debts prior to application of directives on impaired debt, credit risk and provision for credit losses.

Prior to January 1, 2011, the provision for doubtful debts was specifically determined, and a general provision and supplementary provision were also included, as per directives of the Supervisor of Banks.

The supplementary provision for doubtful debts is based on the quality of the client indebtedness portfolio, based on risk attributes as defined in directives of the Supervisor of Banks. The supplementary provision for doubtful debts is calculated using percentages specified for each of these risk attributes. The general provision is in amounts adjusted tor the end of 2004, an amount which constituted 1% of total indebtedness under responsibility of the Bank and banking investees as of December 31, 1991.

8) Directives of the Supervisor of Banks with regard to update of disclosure of credit quality of debt and of provision for credit losses, to adopt accounting standard update ASU 2010-20 .

The Bank applies the Supervisor of Banks' directive with regard to update of disclosure of credit quality of debt and of provision for credit losses, to adopt accounting standard update ASU 2010-20, which stipulates wider disclosure of debt balances, movement in the balance of the provision for credit losses, any material acquisition and sale of debt during the reported period and disclosures with regard to credit quality.

Inter alia, the Bank is required to provide quantitative disclosure of indicated credit quality, at least for the troubled debt balance in each debt group. Disclosure of credit quality of housing loans is also included. Disclosure is required for each credit segment (such as: commercial credit, individuals – housing loans, individuals – other, banks and governments) and for each major debt group, as defined in the directive, with distinction between borrower activity in Israel and overseas, if this is material.

The Bank applies the directives prospectively as from January 1, 2012. The Bank applies part of the new disclosure requirements with regard to restructuring of troubled debt as from January 1, 2013. In addition, the Bank applies additional disclosure requirements with regard to credit rating as from the 2014 financial statements.

For such new disclosures, the Bank is not required to provide comparative data.

Initial application of the directives had no effect on the financial statements, other than the updated disclosure format in Note 4 - Credit risk, loans to the public and provision for credit losses.

J. Transfer and service of financial assets and discharge of liabilities

The Bank applies measurement and disclosure rules specified in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and discharge of liabilities", as amended by FAS 166, "Transfer and service of financial assets" (ASC 860-10), for handling the transfer of financial assets and discharge of liabilities.

Note 1 - Reporting Principles and Accounting Policies - continued

J. Transfer and service of financial assets and discharge of liabilities - continued

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other form of receivership; (2) any recipient (or, if the recipient is an entity designed to engage in securitization or asset-backed financing operations, and that entity is prohibited from pledging or exchanging the financial assets it received - any third party holding beneficiary interests) may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient (or third party holding beneficiary interests) from exercising their right to pledge or exchange the financial assets, and grants the transferror a non-trivial benefit; (3) the transferror, or subsidiaries consolidated in these financial statements, or theiragents , do not retain effective control over the financial assets or beneficiary interests related to these transferred assets. As from January 1, 2012, the Bank prospectively applies Accounting Standard Update ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules specified in FAS 860 (ASC 166). Upon the transition date, there was no impact on the Bank's financial statements. According to the update, the assessment of existence of effective control is focused on the contractual rights and obligations of the transferror, therefore the following are not taken into consideration: (1) any criterion requiring the transferror to be able to acquire transferred securities even in case of failure by the transferee; and (2) any directives with regard to required collateral with respect to the above criterion (1).

In transactions involving transfer of financial assets, the Bank determines that the transferor maintains effective control over transferred assets (and therefore the asset transfer shall be accounted for as secured debt) if all of the following conditions are fulfilled:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price.
- The agreement is made simultaneously with the transfer.

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory interests. Participatory interests must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interests pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferror or to other holders of participatory interests (other than in case of breach of representation or obligation, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferror and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset as a whole.

Note 1 - Reporting Principles and Accounting Policies - continued

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered secured debt. Sale of part of a financial asset, other than a participatory interest, is treated as secured debt - that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank applies specific provisions determined in Public Reporting Regulations for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the lender any liquid instruments specifically related to the securities loaning transaction, which the lenderr may sell or pledge.

Such loaning and borrowing are treated as a credit or deposit, measured at fair value of the related security. Revenues on an accrual basis with respect to such securities are recognized as interest income from credit and changes to fair value (in excess of changes to accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of securities available for sale.

The Bank only cancelsecognition of a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and is no longer liable for the liability; or (b) the Bank was legally released from the liability by a judicial process or by consent of the lender, being the major party liable for the liability.

K. Buildings and equipment

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Fixed assets:

1) A fixed asset is a tangible item held for use in production or delivery of goods or services, for renting to others or for administrative needs, which is expected to be used for more than one period.
2) Fixed assets are initially recognized at cost, including cost directly attributable to acquisition of the fixed asset and to bringing it to the location and state required for its operation.

Note 1 - Reporting Principles and Accounting Policies - continued

Cost of software for the Bank's own use, incurred during the development phase, are presented under "Buildings and equipment" if the following conditions are fulfilled:

a) Technical feasibility is provable with regard to completion of the software so as to be available for use.
b) The Bank intends to complete development and use the software.
c) The Bank is able to use the software.
d) The Bank can prove the manner in which the software would produce the expected economic benefits.
e) There are technical, financial and other resources available for completing development and use of the software.

The initial recognition, as described above, is based on costs directly attributable to and required for software development, to be used in the manner intended by the Bank.

3) In periods subsequent to initial recognition, fixed assets are stated at cost net of accumulated depreciation and net of any accumulated impairment loss.

4) Subsequent costs

The replacement cost of part of a fixed asset item and other subsequent costs are recognized as part of the carrying amount of fixed assets, if it is expected that future economic inherent benefits would inure to the Group and if such costs may be reliably measured. The carrying amount of a replaced part of a fixed asset item is de-recognized. Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

5) Depreciation and depreciation method:

a) According to the component method, the Bank depreciates separately any component of a fixed asset whose cost is significant relative to the total item cost. Depreciation expense for each period is recognized in the statement of profit and loss.
b) The depreciable amount of the fixed asset item is methodically allocated over its useful life. The depreciation method used reflects the expected pattern of consumption of future economic benefits from the asset. For further information, see Note 7.A.
c) The Bank reviews the residual value, the useful life of the fixed asset and the depreciation method used - at least at the end of each fiscal year. Any changes required are treated as changes in an accounting estimate.

6) Current maintenance cost for an item is recognized in the statement of profit and loss when incurred.

7) As for impairment, see section N. below.

8) The carrying amount of a fixed asset item is derecognized upon realization, or when no future economic benefits are expected from its use or realization.. The difference between the net proceeds from realization, if any, and the carrying amount of the derecognized asset, is recognized in the statement of profit and loss under Other Revenues.

Note 1 - Reporting Principles and Accounting Policies - continued

L. Intangible assets and goodwill

This item includes goodwill and will include any intangible assets acquired separately or as part of a business combination, intangible assets developed by the Bank (other than development cost of software for own use, included under "Buildings and equipment") and service assets.

Goodwill is not systematically depreciated. For details of treatment of goodwill, see section E.5. above. For details of impairment of intangible assets, see section N. below.

M. Leases

Leases, including land leases from the Israel Land Administration ("ILA") or from third parties, where the Bank essentially bears all risks and rewards associated with the property, are classified as financing leases. Upon initial recognition, leased assets are measured at their fair value or the present value of minimum future leasing fees, whichever is lower. Future payments for exercise of an option to extend the lease term with the ILA are not recognized as part of the asset and the relevant liability, since they constitute contingent leasing fees, derived from the fair value of the land upon future renewal dates of the lease. Subsequent to initial recognition, the asset is treated as per the accounting policies applicable for such asset. Other leases are classified as operating leases, and the leased assets are not recognized on the Bank's balance sheet.

Prepaid leasing fees paid to the ILA with respect to land leases classified as operating leases are presented in the balance sheet as prepaid expenses, and are recognized in the statement of profit and loss over the lease term. The lease term and amortization amounts consider any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.

In a lease for land and buildings, the land and building components are individually reviewed for the purpose of classifying such leases; the key consideration in classification of the land component is the fact that land typically has an unspecified useful life.

Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.

Minimum leasing fees payable for a financing lease are divided into financing expenses and a reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance. Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.

Note 1 - Reporting Principles and Accounting Policies - continued

N. Impairment of non-financial assets

1) General

Upon each balance sheet date, a review is made for indications of impairment of various assets within the scope of IAS 36. For some assets, the review for impairment is annual if there are no indications of impairment, namely:

a) An intangible asset not yet ready for use;
b) Assets with unspecified useful life; and
c) Goodwill acquired upon a business combination.

For review of impairment, the Bank estimates the recoverable amount of the asset or of the cash-generating unit. The recoverable amount is the higher of the fair value net of selling cost of the asset (or cash-generating unit) or its value in use. Value in use is the present value of future cash flows expected from an asset or cash-generating unit.
Should the recoverable amount be lower than the carrying amount for the asset, the Bank recognizes an impairment loss and writes down the asset on its books to its recoverable amount. Impairment loss is immediately recognized in the statement of profit and loss.
If it is not possible to estimate the recoverable amount of an individual asset, the Bank calculates the recoverable amount of the cash-generating unit to which the asset belongs.
For review of impairment, goodwill acquired in a business combination is allocated, as from the acquisition date, to each of the cash-generating units expected to benefit from the synergy of the business combination.
In case of loss due to impairment of a cash-generating unit, the Bank allocates the impairment loss to reducing the value of unit assets, first against goodwill allocated to the unit and then to all assets pro-rata to their carrying amounts (subject to their recoverable amount). Such loss is immediately recognized in the statement of profit and loss.
The Bank estimates, at the end of each reported period, if there are indications that any impairment loss for the asset, except for goodwill, recognized in previous periods, no longer exists or is reduced. When such indications exist, the Bank calculates the recoverable amount of the asset. Impairment loss for an asset, except for goodwill, is only reversed in case of changes to estimates used to determine the recoverable amount of the asset, since the date on which impairment loss was most recently recognized. The carrying amount of an asset, except for goodwill, which increased due to reversal of impairment loss, shall not exceed the carrying amount assigned (net of depreciation or amortization), had no impairment loss been recognized in previous periods.

Note 1 - Reporting Principles and Accounting Policies - continued

Reversal of an impairment loss for an asset, except for goodwill, is immediately recognized in the statement of profit and loss. Reversal of an impairment loss for a cash-generating unit is allocated to unit assets, except goodwill, pro-rata to their carrying amounts. Due to reversal, the carrying amount of an asset shall not exceed the lower of its recoverable amount or its carrying amount if no impairment loss had been recognized. Impairment loss with respect to goodwill is not reversed.

2) In addition, when reviewing for impairment of capitalized development costs of software for its own use, the Bank also applies the following criteria:
   a) Use of the software is not expected to provide significant potential service;
   b) A significant change has occurred in the manner or scope of use or expected use of the software.
   c) A significant change has been or is expected to be made to the software; and
   d) The cost of software development significantly exceeds the amount budgeted by the entity for such development.
   e) It is no longer expected that development of the software would be completed, based on certain indications (such as programming challenges which may not be resolved within a reasonable time).

   If one or more such indications exist, the Bank reviews for impairment in conformity with the rules stipulated in IAS 36 "Impairment of Assets".

3) Impairment of investment in associates:

   Impairment of an investment in an associate is reviewed when evidence indicates potential impairment of the investment, as specified in sections 58-70 of IAS 39 "Financial Instruments: Recognition and Measurement". In addition, the Bank reviews the indications listed in resolution 1-4 of the Israeli Securities Authority "Guidelines for review of need to write down permanent investments".

   Impairment is measured pursuant to provisions of IAS 36, by comparing the recoverable amount of the investment to its carrying amount. When determining the value in use of the investment, the Bank estimates its share of the present value of estimated future cash flows to be produced by the associate, or alternatively, the present value of estimated future cash flows expected from dividends received from this investment and from its final realization. Any impairment loss incurred is allocated to the investment as a whole.

   In subsequent reporting periods after the period in which the Bank was first required to record a provision for impairment, the investment in an associate would be stated at the lower of the recoverable amount and the carrying amount using the equity method. The recoverable amount is calculated in each reported period in which indications exist of change in the recoverable amount. If, at a later date, the recoverable amount should increase, the recognized impairment would be reversed.

O. Contingent liabilities -

The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as probable, an appropriate provision was made in the financial statements.

2) Reasonably possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as reasonably possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.

3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as remote, no provision was made in the financial statements.

   See Note 19 D for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

   Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

   In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

P. Employee rights

1) Pension and severance pay liability

   Pension and severance pay liabilities are covered by regular deposits to funds and by appropriate provisions. The financial statements included all of the liabilities for employee rights, including appropriate provisions for severance pay and for voluntary retirement programs, which are recorded in accordance with the law, agreement, custom and management's expectations. Future contractual pension liabilities are calculated based on current actuarial advice, based on recommendations of the Supervisor of Insurance. The liabilities are discounted using a 4% discount rate, in line with directives of the Supervisor of Banks. Also, see Note 16 below.

   For details of adoption of US GAAP for employee rights, see section AA.1 below.

2) Supervisor of Banks' directives with regard to strengthening internal controls over financial reporting of employee rights.

On March 27, 2011, the Supervisor of Banks published directives with regard to strengthening internal controls over financial reporting of employee rights. These directives provide several clarifications with regard to assessment of liabilities with respect to employee rights, as well as directives concerning internal controls over the financial reporting process for employee rights, including a requirement to include a qualified actuary, identify and classify liabilities with respect to employee rights, maintain internal controls for reliance on their actuarial assessment and validationf, as well as certain disclosure requirements.

In accordance with these directives, a banking corporation which expects payments to be made to a group of employees in excess of contractual terms, shall take into account the expected number of departing employees (including employees expected to retire under voluntary retirement plans or upon receiving other beneficial terms) and the benefits expected to be paid to them upon departure.

The severance pay liability for this group of employees shall be stated on the financial statements at 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 the liability amount calculated as the product of the employee's monthly salary and his number of years in service, as required by Accounting Opinion 20 of the Institute of Certified Public Accountants in Israel - whichever is higher.

For details of adoption of US GAAP for employee rights, see section AA.1 below.

Q. Share-based payment transactions

The fair value, upon award, of share-based payment awards to employees is recognized as payroll expense, against an increase in equity, over the period in which the non-contingent eligibility for such award is achieved, pursuant to IFRS2. The amount charged as an expense with respect to share-based payment awards contingent on vesting conditions, which are service or performance conditions other than market conditions, is adjusted to reflect the number of awards expected to vest. Payroll expenses with respect to share-based payment include accrual of anticipated payroll tax expenses based on the naïve value of the payment. As for share-based payment awards contingent on vesting conditions, the Bank accounts for these conditions when estimating the fair value of the equity instruments awarded. Therefore, the Bank recognizes an expense with respect to these awards, regardless of fulfillment of these conditions.

For transactions in which the Bank awards to employees of subsidiaries rights to equity instruments of the Bank, the award is accounted for by the Bank as a share-based payment transaction discharged using equity instruments.

For details of adoption of US GAAP for employee rights, see section AA.1 below.

R. Derivative instruments and hedging activities

1) The Bank trades in financial derivatives, including currency and interest contracts and credit derivatives. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risk, including basis and interest risk – risk to which the Bank is exposed in its day-to-day activities.

2) Derivatives are stated at fair value in the Bank's balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivatives, other than derivatives used as cash flow hedges, are recognized in the Statement of Profit and Loss.

3) It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   An embedded derivative previously separated is presented on the balance sheet together with the host contract. Changes to fair value of separated embedded derivatives are immediately charged to profit and loss.

4) In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policies was adopted for structured securities in the available-for-sale portfolio.

5) The Bank designates certain derivates as fair value hedges or as cash flow hedges. The Bank documents in writing all of the hedging relationships between the hedging financial derivatives and the hedged items, as well as the objective and strategy of the management of risk through the creating of a hedge transaction. This documentation includes identification of the asset designated as the hedged item and a description of how the hedging instrument is expected to hedge the risk associated with the hedged item. The Bank estimates the effectiveness of the hedging relationship at the inception of the hedge and continuously, in accordance with its risk management policies. Based on the above, a determination is made as to whether the derivative qualifies as a hedge in accordance with public reporting directives.

6) Changes in the fair value of an item hedged by a fair value hedge using a derivative that meets the above conditions, arising from changes in the specified risk factors, are recorded currently to the statement of profit and loss, concurrent with the changes in the fair value of the hedging derivative.
   Changes in the fair value of a derivative which qualifies as a cash flow hedge, which arise from changes in the risk factor being hedged (which impacts the cash flows resulting from the hedged instrument), attributed to an anticipated transaction which is probable and may impact profit and loss, are charged to capital reserve from cash flow hedging, in Other Comprehensive Income, under Shareholders' Equity.

Note 1 - Reporting Principles and Accounting Policies - continued

7) The Bank immediately stops hedge accounting, when:
   a) It is determined that a hedge is no longer effective for offsetting the changes in the fair value or cash flows of the hedged item, as the case may be.
   b) The derivative expires, is sold, cancelled or realized.
   c) Management revokes the designation of the derivative as a hedging instrument.

   When a fair value hedge is discontinued because it is determined that the hedge no longer qualifies as an effective fair value hedge, the derivative will continue to be recorded in the balance sheet at its fair value, but changes to the fair value of the hedged asset or liability will no longer be regularly charged to profit and loss. When a cash flow hedge is discontinued because it is determined that the hedge no longer qualifies as an effective cash flow hedge, changes in the fair value of the derivative since the date of discontinuation of hedging are recorded in the statement of profit and loss. Profit or loss accumulated under Other Comprehensive Income and previously presented under Equity, remains under Equity until the anticipated transaction takes place or until it is beyond any reasonable doubt that the anticipated transaction would not take place. If it is beyond any reasonable doubt that the anticipated transaction would not take place, the accumulated profit or loss with respect to the hedging instrument, recognized under Other Comprehensive Income, would be reclassified to profit and loss.

S. Fair value

1) As from January 1, 2011, the Bank applies FAS 157 (ASC 820-10) defines fair value, and specifies a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. Moreover, as from January 1, 2012, the Bank applies the Supervisor of Banks' directive on fair value measurement, which includes in the Public Reporting Regulations the rules stipulated by Accounting Standard Update ASU 2011-04 with regard to fair value measurement (ASC 820): Amendments to achieve uniform fair value measurement and disclosure requirements in US GAAP and in IFRS.

   The ranking divides instruments measured at fair value into three levels:

   Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

   Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as specified under Level 1. Level 2 data include use of quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

   Level 3 - fair value measured by using non-observed data.

   FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard allows recognition of "first day" gains, and eliminates the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price. (Also see the Bank of Israel directive dated June 2012 below)

Note 1 - Reporting Principles and Accounting Policies - continued

For the purpose of fair value measurement, the basic "in use" assumption is not applied to financial instruments. However, under certain conditions, financial assets and financial liabilities held and managed within a portfolio, are measured at fair value using the price which would have been received or paid upon sale or transfer of the net position in such groups of financial assets or financial liabilities.

Moreover, fair value of financial instruments is measured without accounting for the blockage factor (holding size), both for financial instruments measured based on Level 1 data and for financial instruments measured based on Level 2 or 3.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivatives, which it issued and is measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk in derivatives as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions on an active market of the credit quality of the counter party, if such indications are available at reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on a consolidated basis, is not material, the Bank calculates the aforementioned adjustment on a group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to provisions stipulated in the standard, the Bank is required to review the valuation methods applied in measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

Note 1 - Reporting Principles and Accounting Policies - continued

How fair value is determined:

a) Securities

The fair value of securities held for trade and securities available for sale is determined based on quoted market prices on a major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units and the aforementioned quoted market price. If a quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.)

b) Financial derivatives

Financial derivatives with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market - using a quoted market price on the most effective market. Derivative financial derivatives not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

c) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

To this end, the future cash flows for impaired and other debt have been calculated net of effects of accounting write-offs and provision for credit losses with respect to that debt.

2) Fair value option

FAS 159 (ASC 825-10) allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to public reporting directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be cancelled.

Further, FAS 159 (ASC 825-10) stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.
Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

T. Basis of recognition of revenues and expenses

1) Interest revenues and expenses are included on the accrual basis, except as follows:

a) Interest accrued on troubled debt classified as non-performing debt is recognized as revenue on cash basis when there is no doubt about collection of the outstanding recorded balance of the impaired debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period for the outstanding recorded debt balance at the contractual interest rate. Interest revenues on the cash basis are classified as interest revenue under the relevant item in the statement of profit and loss.

When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to housing loans are recognized in the statement of profit and loss based on actual collection.

Impaired debt under restructuring is treated as debt accruing interest revenues if all of the following conditions are fulfilled:

- After restructuring, the debt is reasonably certain to be fully repaid under the new terms.
- The agreement is complied with for at least six months for debt repaid by monthly installments, or over 20% for debt with longer maturities.
- The restructured debt is not 90 days or more in arrears.

b) Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project assistance, are recognized pro-rata over the term of the transaction.

c) Securities - see section H) above.

d) Financial derivatives - see section R) above.

2) Commission revenues with respect to services rendered (such as: activities in securities and derivatives, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in the statement of profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project assistance, are recognized gradually over the transaction term.

3) In periods subsequent to other-than-temporary impairment. Revenue accrual in the reported period is based on excess expected cash flows from the debt instrument (the base amount of debt instrument upon other-than-temporary impairment is its fair value).

4) Other revenues and expenses - are recognized on the accrual basis.

U. Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are charged to the statement of profit & loss, unless the taxes arise from a business combination, or charged directly to equity if they arise from items directly recognized under equity.

1) Current taxes

Current tax is the tax amount expected to be payable (or receivable) on taxable income for the year, calculated using tax rates which apply pursuant to statutes enacted, or essentially enacted, as of the reporting date, including changes to tax payments with regard to previous years.

The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Act. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

2) Deferred taxes

Deferred taxes are recognized with respect to temporary difference between the carrying amount of assets and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred taxes are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

Note 1 - Reporting Principles and Accounting Policies - continued

3) Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and liabilities when there is an enforceable legal right of set-off between them, and they are attributed to the same taxable income, taxed by the same tax authority with respect to the same taxable entity, or to consolidated companies, which intend to discharge current tax assets and liabilities on a net basis, or with tax assets and liabilities settled concurrently.

4) Additional tax with respect to dividend distributions

The Bank may incur additional tax with respect to earnings of certain investees, should these earnings be distributed as dividends by the investees. No provision for tax is recorded for subsidiaries, if the Bank has control as of the distribution date and dividend distributions are not expected in the foreseeable future.

5) Uncertain tax positions

In cases of uncertainty about income taxes, banking corporations are required to apply the rules in clarification FIN 48 with regard to uncertainty about income taxes, provided these do not contradict the international financial reporting standards, by way of setting policies, procedures and implementing documentation requirements with respect to tax positions of varying degrees of uncertainty.

In this context, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

V. Earnings per share

The Bank states earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.

Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, stock options and stock options awarded to employees.

W. Segment reporting

An operating segment is a component of the Bank engaged in operations from which it may derive revenues and incur expenses, its operating results are regularly reviewed by management and by the Board of Directors for the purpose of making decisions about resource allocation and for assessing its performance, and separate financial information is available with regard to it. The format for reporting Bank operating segments was described in Public Reporting Regulations by the Supervisor of Banks, and is based on client attributes.

For details of the amendment to Public Reporting Regulations with regard to supervisory operating segments, see section AA.4 below.

Note 1 - Reporting Principles and Accounting Policies - continued

X. Related party disclosures

IAS 24 stipulates the required disclosure by an entity of its relations with any related party, as well as of transactions and outstanding balances with any related party. Further disclosure is required of remuneration of key executives. Key executives are defined as persons having the authority and responsibility for planning, directing and controlling entity operations, either directly or indirectly, including any (active or inactive) Board member of such entity.

Y. Capitalized borrowing costs

In the current reporting period, no borrowing costs have been capitalized.

Z. Statement of Comprehensive Income

As from January 1, 2014, the Bank applies the directives stipulated in the Supervisor of Banks' circular with regard to reporting or amounts reclassified out of Other Comprehensive Income. The circular is designed to align the disclosure requirements with regard to reclassification of items out of cumulative other comprehensive income, in line with an update to American accounting standard ASU 2013-02.

Accordingly, disclosure is to be provided for any items in the statement of profit and loss which include amounts reclassified from cumulative other comprehensive income to the statement of profit and loss. These provisions will be retroactively applied as from January 1, 2014.

AA. New accounting standards and new directives by the Supervisor of Banks prior to their application:

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.

Note 1 - Reporting Principles and Accounting Policies - continued

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

- The discount rate used to calculate reserves and to cover employee rights would be based on the 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. According to the circular, there was no change to rules currently applied to the financial statements on this matter.
- 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

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

Note 1 - Reporting Principles and Accounting Policies - continued

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 will update these assumptions annually.
- 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.
- 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 control of financial reporting with regard to employee rights, including with regard to review of "essential commitment" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees - Jubilee bonuses:

- 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 immediately charged to Profit and Loss.

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 generally recognizes expenses with respect to share-based payments made to Bank employees.
- Equity awards are measured at fair value on the award date.

Note 1 - Reporting Principles and Accounting Policies - continued

As for accounting treatment of actuarial gain / loss recognized under Other Comprehensive Income due 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 (hereinafter: "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 gain / loss due to current changes in the discount rate 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.

In preparation for application of this regulation, the Bank has completed the mapping of various rights and benefits of Bank employees which are affected by application of the new standards.

Below is information about the expected impact due to application of these rules, arising from use of discount rates based on market yields for government debentures in Israel, plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date (NIS in millions):

	As of January 1, 2015
	(audited)
	Effect of application of the directive
Other liabilities (excess of provision over funding for severance pay, retirement and pension)	179
Other assets (deferred taxes receivable, net)	(68)
Decrease in equity attributable to equity holders of the Bank	111

This impact is the primary expected impact due to adoption of US GAAP with regard to employee benefits.

In conformity with transition provisions specified in Proper Conduct of Banking Business Regulation no. 299, the accumulated loss balance with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the equity requirements according to provisions of Basel III, but would rather be subject to transition provisions, so that its 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 expected impact on Tier I equity ratio as of December 31, 2014 is a decrease of 0.04%.

Provisions of this circular will be effective as of January 1, 2015.

Upon initial application of the proposed new directives, the Bank would be required to retrospectively revise the comparative figures for periods starting on or after January 1, 2013.

The Bank applies the changes in the circular and in the Q&A file as from January 1, 2015.

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 so that a banking corporation is required to adopt generally accepted accounting principles in the USA with regard to classification as liability or equity of financial instruments, including hybrid instruments, including the presentation, measurement and disclosure rules stated 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.

Provisions of this circular will be effective as of January 1, 2015. Upon initial application, action should be taken in conformity with transition provisions stipulated by codification as described above, including amendment of comparative figures if applicable.

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, which is included in Tier 1 capital as of December 31, 2013 and is subject to transition provisions prescribed in Proper Conduct of Banking Business Regulation 299. In such case, pending conversion of the debt instrument into shares, the instrument is to be classified as a liability and the conversion component into shares need not be separated from the instrument for separate accounting treatment. The instrument is to be measured at amortized cost.

The Q&A file also discusses classification and measurement of debt instruments which contain a contingent conversion component into shares, which was issued on or after January 1, 2014 and is included as a component of supervisory capital, in conformity with Proper Conduct of Banking Business Regulation 202. In such case, debt instruments recognized as Tier 2 capital components, in conformity with Proper Conduct of Banking Business Regulation 202, are to be classified as liabilities and measured at amortized cost. The conversion component into shares need not be separated from the instrument for separate accounting treatment.

Therefore, amendment of the Public Reporting Regulations on this matter is not expected to impact the Bank's financial statements.

3) **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 is preparing to apply these directives.

4) **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.

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. All other requirements are applicable from the financial statements for the first quarter of 2016.
The Bank is reviewing the implications of adopting this amendment on its financial statements and is preparing for application thereof.

5) Recognition of revenues from contracts with clients

On January 11, 2015, a circular was issued 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 restating comparative figures, or to choose prospective application, while charging the cumulative effect to equity upon initial application.

The new standard does not apply, *inter alia*, to financial instruments and to contractual rights or obligations within the scope of chapter 310 of the codification.

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.

Note 2 - Cash and Deposits with Banks
As of December 31,
Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2014	2013	2014	2013
Cash and deposits with central banks	23,651	23,657	20,167	19,878
Deposits with commercial banks	3,147	2,403	2,258	1,243
Total cash and deposits with banks	26,798	26,060	22,425	21,121
Includes - cash, deposits with banks and deposits with central banks for an original period of up to three months	26,189	(1)25,105	22,241	(1)20,947

(1) Re-classified.

Note 3 - Securities – Consolidated
As of December 31, 2014
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)	Unrecognized profit from adjustments to fair value	Unrecognized 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 15.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 Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss.
(6) US government debentures.
(7) Of which, securities amounting to NIS 647 million classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of operating results of investments in debentures - see Notes 22.D., 23.A.2. and 23.B.
For details of results of investment in shares – see Note 23.A.4.

Note 3 - Securities - Consolidated - continued
As of December 31, 2013
Reported amounts (NIS in millions)

A. Composition - continued

	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	1,771	1,771	11	-	1,782

	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)]	3,017	3,000	47	(30)	3,017
Of foreign governments[(2)(6)]	82	81	1	-	82
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	224	223	1	-	224
Of others in Israel	23	22	1	-	23
Of others overseas	109	108	2	(1)	109
Total debentures available for sale	3,579	3,558	52	(31)	3,579
Shares[(3)]	98	98	-	-	98
Total securities available for sale	3,677	3,656	[(4)]52	[(4)](31)	3,677

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value[(1)]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel[(7)]	1,552	1,541	11	-	1,552
Total securities held for trade	1,552	1,541	[(5)]11	-	1,552
Total securities	7,000	6,968	74	(31)	7,011

(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-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 98 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss.
(6) US government debentures.
(7) Of which, securities amounting to NIS 850 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 22.D., 23.A.2. and 23.B.
For details of results of investment in shares – see Note 23.A.4.

Note 3 - Securities - The Bank - continued
As of December 31, 2014

Reported amounts (NIS in millions)

A. Composition - continued

	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	3,410	3,410	18	-	3,428

	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]	7,116	7,105	30	(19)	7,116
Of foreign governments[2][6]	115	115	-	-	115
Of banks and financial institutions overseas	218	218	-	-	218
Of others overseas	56	56	-	-	56
Total debentures available for sale	7,505	7,494	30	(19)	7,505
Shares[3]	104	105	-	(1)	104
Total securities available for sale	7,609	7,599	[4]30	[4](20)	7,609

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized 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	12,053	12,051	48	(28)	12,071

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.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 Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss.
(6) US government debentures.
(7) Of which, securities amounting to NIS 647 million classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of operating results of investments in debentures - see Notes 22.D., 23.A.2. and 23.B.
For details of results of investment in shares – see Note 23.A.4.

Note 3 - Securities - The Bank - continued
As of December 31, 2013

Reported amounts (NIS in millions)

A. Composition - continued

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gain	Cumulative other comprehensive income Loss	Fair value[1]
(1) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	2,996	2,979	47	(30)	2,996
Of foreign governments[2][6]	82	81	1	-	82
Of banks and financial institutions overseas	194	194	-	-	194
Of others in Israel	15	15	-	-	15
Of others overseas	109	108	2	(1)	109
Total debentures available for sale	3,396	3,377	50	(31)	3,396
Shares[3]	98	98	-	-	98
Total securities available for sale	3,494	3,475	[4]50	[4](31)	3,494

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value[1]
(2) Securities held for trade					
Debentures -					
Of the Government of Israel[7]	1,552	1,541	11	-	1,552
Total securities held for trade	1,552	1,541	[5]11	-	1,552
Total securities	5,046	5,016	61	(31)	5,046

(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-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 98 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss.
(6) US government debentures.
(7) Of which, securities amounting to NIS 850 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 22.D., 23.A.2. and 23.B.
For details of results of investment in shares – see Note 23.A.4.

Note 3 - Securities - Consolidated - continued

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 December 31, 2014							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value[1]	Unrealized loss 0%-20%	Unrealized loss 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

	As of December 31, 2013							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value[1]	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total
Securities available for sale								
Debentures -								
Of the Government of Israel[2]	-	-	-	-	567	30	-	30
Of others overseas	9	1	-	1	-	-	-	-
Total debentures available for sale	9	1	-	1	567	30	-	30
Shares	-	-	-	-	-	-	-	-
Total securities available for sale	9	1	-	1	567	30	-	30

(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-F for information on liens on securities held by the Bank.

C. Asset-backed securities -

As of December 31, 2014 and as of December 31, 2013, there was no balance of asset-backed securities.

Note 4 - Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit losses

Consolidated

						December 31, 2014
						Provision for credit losses
	Loans to the public					
	Commer-cial	Housing	Individual - other	Total	Banks and govern-ments	Total
Balance of provision for credit losses at start of period	624	646	148	1,418	10	1,428
Expenses with respect to credit losses	83	6	93	182	(9)	173
Accounting write-offs	(220)	(22)	(123)	(365)	-	(365)
Recovery of debt written off in previous years	139	-	71	210	4	214
Net accounting write-offs	(81)	(22)	(52)	(155)	4	(151)
Balance of provision for credit losses at end of period	626	630	189	1,445	5	1,450
Of which: With respect to balance sheet credit instruments	92	-	10	102	-	102

						December 31, 2013
Balance of provision for credit losses at year start	720	821	154	1,695	10	1,705
Expenses with respect to credit losses	41	190	57	288	-	288
Accounting write-offs	(248)	[2](365)	(142)	(755)	-	(755)
Recovery of debt written off in previous years	111	-	79	190	-	190
Net accounting write-offs	(137)	(365)	(63)	(565)	-	(565)
Balance of provision for credit losses at year end	624	646	148	1,418	10	1,428
Of which: With respect to balance sheet credit instruments	92	-	11	103	-	103

						December 31, 2012
Balance of provision for credit losses at start of period	708	878	166	1,752	14	1,766
Expenses with respect to credit losses	207	10	63	280	(4)	276
Accounting write-offs	(298)	(67)	(151)	(516)	-	(516)
Recovery of debt written off in previous years	103	-	76	179	-	179
Net accounting write-offs	(195)	(67)	(75)	(337)	-	(337)
Balance of provision for credit losses at end of period	720	821	154	1,695	10	1,705
Of which: With respect to balance sheet credit instruments	85	-	17	102	-	102

(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 write-off of housing loans fully provided for, amounting to NIS 281 million.

Note 4 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit losses - continued

The Bank

						December 31, 2014
						Provision for credit losses
	Loans to the public				Banks and	
	Commer-cial	Housing	Individual - other	Total	govern-ments	Total
Balance of provision for credit losses at start of period	624	646	119	1,389	8	1,397
Expenses with respect to credit losses	83	6	68	157	(7)	150
Accounting write-offs	(220)	(22)	(105)	(347)	-	(347)
Recovery of debt written off in previous years	139	-	56	195	4	199
Net accounting write-offs	(81)	(22)	(49)	(152)	4	(148)
Balance of provision for credit losses at end of period	626	630	138	1,394	5	1,399
Of which: With respect to balance sheet credit instruments	92	-	9	101	-	101
						December 31, 2013
Balance of provision for credit losses at year start	720	821	123	1,664	8	1,672
Expenses with respect to credit losses	41	190	52	283	-	283
Accounting write-offs	(248)	(2)(365)	(121)	(734)	-	(734)
Recovery of debt written off in previous years	111	-	65	176	-	176
Net accounting write-offs	(137)	(365)	(56)	(558)	-	(558)
Balance of provision for credit losses at year end	624	646	119	1,389	8	1,397
Of which: With respect to balance sheet credit instruments	92	-	10	102	-	102
						December 31, 2012
Balance of provision for credit losses at start of period	708	878	135	1,721	12	1,733
Expenses with respect to credit losses	221	10	50	281	(4)	277
Accounting write-offs	(312)	(67)	(124)	(503)	-	(503)
Recovery of debt written off in previous years	103	-	62	165	-	165
Net accounting write-offs	(209)	(67)	(62)	(338)	-	(338)
Balance of provision for credit losses at end of period	720	821	123	1,664	8	1,672
Of which: With respect to balance sheet credit instruments	85	-	15	100	-	100

(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 write-off of housing loans fully provided for, amounting to NIS 281 million.

Note 4 - 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

Consolidated

						December 31, 2014
	Loans to the public				Banks and govern-ments	Total
	Commer-cial	Housing	Individual - other	Total		
Recorded debt balance of debt[1]						
reviewed on individual basis	29,514	3	641	30,158	4,691	34,849
reviewed on group basis	6,790	97,521	14,443	118,754	-	118,754
Total debt	36,304	[2]97,524	15,084	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

						December 31, 2013
Recorded debt balance of debt[1]						
reviewed on individual basis	29,582	2	645	30,229	3,448	33,677
reviewed on group basis	6,326	90,070	13,255	109,651	-	109,651
Total debt	35,908	[2]90,072	13,900	139,880	3,448	143,328
Loans for which a provision for credit losses is assessed by extent of arrears	-	89,359	-	89,359	-	89,359
Provision for credit losses with respect to debt[1]	-	-	-	-	-	-
reviewed on individual basis	476	2	42	520	10	530
reviewed on group basis	56	644	95	795	-	795
Total provision for credit losses	532	646	137	1,315	10	1,325
Of which: Provision by extent of arrears	-	331	-	331	-	331

(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 5,313 million (as of December 31, 2013 - NIS 5,180 million).

Note 4 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated – continued

The Bank

						December 31, 2014
	Loans to the public					
	Commer-cial	Housing	Individual - other	Total	Banks and govern-ments	Total
Recorded debt balance of debt[1]						
reviewed on individual basis	29,514	3	356	29,873	3,672	33,545
reviewed on group basis	6,790	97,492	7,110	111,392	-	111,392
Total debt	36,304	[2]97,495	7,466	141,265	3,672	144,937
Loans for which a provision for credit losses is assessed by extent of arrears	-	96,766	-	96,766	-	96,766
Provision for credit losses with respect to debt[1]						
reviewed on individual basis	464	-	20	484	5	489
reviewed on group basis	70	630	109	809	-	809
Total provision for credit losses	534	630	129	1,293	5	1,298
Of which: Provision by extent of arrears	-	291	-	291	-	291

						December 31, 2013
Recorded debt balance of debt[1]						
reviewed on individual basis	29,582	2	313	29,897	2,251	32,148
reviewed on group basis	6,326	90,055	6,616	102,997	-	102,997
Total debt	35,908	[2]90,057	6,929	132,894	2,251	135,145
Loans for which a provision for credit losses is assessed by extent of arrears	-	89,344	-	89,344	-	89,344
Provision for credit losses with respect to debt[1]						
reviewed on individual basis	476	2	38	516	8	524
reviewed on group basis	56	644	71	771	-	771
Total provision for credit losses	532	646	109	1,287	8	1,295
Of which: Provision by extent of arrears	-	331	-	331	-	331

(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 5,313 million (as of December 31, 2013 - NIS 5,180 million).

Note 4 - 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

Consolidated

	As of December 31, 2014					
		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	7,858	25	91	7,974	7	22
Construction and real estate - real estate operations	2,008	3	255	2,266	-	2
Financial services	3,313	59	59	3,431	2	13
Commercial – other	19,359	124	291	19,774	21	163
Total commercial	32,538	211	696	33,445	30	200
Private individuals - housing loans	96,148	[7]950	3	97,101	[7]950	[6]305
Private individuals - other	14,623	105	73	14,801	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 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 4.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.

Note 4 - 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 - continued

Consolidated

	As of December 31, 2013					
		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	7,351	16	[8]243	7,610	2	6
Construction and real estate - real estate operations	1,630	9	[8]364	2,003	-	6
Financial services	3,011	5	165	3,181	2	11
Commercial – other	19,044	258	350	19,652	32	86
Total commercial	31,036	288	1,122	32,446	36	109
Private individuals - housing loans	88,615	[7]1,081	2	89,698	[7]1,081	349
Private individuals - other	13,216	115	82	13,413	17	72
Total public – activity in Israel	132,867	1,484	1,206	135,557	1,134	530
Banks in Israel	[8]1,034	-	-	1,034	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	133,902	1,484	1,206	136,592	1,134	530
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,398	-	32	1,430	-	-
Commercial – other	1,977	53	2	2,032	-	53
Total commercial	3,375	53	34	3,462	-	53
Private individuals	860	-	1	861	-	-
Total public – activity overseas	4,235	53	35	4,323	-	53
Overseas banks	[8]2,109	-	-	2,109	-	-
Overseas governments	[8]304	-	-	304	-	-
Total activity overseas	6,648	53	35	6,736	-	53
Total public	137,102	1,537	1,241	139,880	1,134	583
Total banks	3,143	-	-	3,143	-	-
Total governments	305	-	-	305	-	-
Total	140,550	1,537	1,241	143,328	1,134	583

(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 4.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 27 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 255 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) Reclassified.

Note 4 - 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 an individual basis, and after 90 days in arrears for debt measured on a group basis. At this stage, i.e. within the 60 and 90 days for debt measured on an individual basis and for debt measured on a 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:

Consolidated

						December 31, 2014
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt	35,382	96,559	14,918	307	4,384	151,550
Troubled non-impaired debt(1)	217	950	105	-	-	1,272
Impaired debt	705	3	73	-	-	781
Total	36,304	97,524	15,084	307	4,384	153,603

						December 31, 2013
Trouble-free debt	34,411	88,989	13,702	(2)305	(2)3,143	140,550
Troubled non-impaired debt(1)	341	1,081	115	-	-	1,537
Impaired debt	1,156	2	83	-	-	1,241
Total	35,908	90,072	13,900	305	3,143	143,328

(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) Re-classified.

Note 4 - 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

Consolidated

	December 31, 2014				
	Balance of impaired debt for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made [(2)]	Total balance of impaired 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.
(4) Re-classified.

Note 4 - 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 - continued

Consolidated

					December 31, 2013
	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	214	25	[4]29	243	[4]676
Construction and real estate - real estate operations	2	1	[4]362	364	[4]381
Financial services	153	36	12	165	211
Commercial – other	198	69	152	350	646
Total commercial	567	131	555	1,122	1,914
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	23	11	59	82	96
Total public – activity in Israel	592	144	614	1,206	2,012
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	592	144	614	1,206	2,012
Borrower activity overseas					
Public - commercial					
Construction and real estate	32	-	-	32	100
Commercial – other	2	-	-	2	5
Total commercial	34	-	-	34	105
Private individuals	1	-	-	1	3
Total public – activity overseas	35	-	-	35	108
Overseas banks	-	-	-	-	4
Overseas governments	-	-	-	-	-
Total activity overseas	35	-	-	35	112
Total public	627	144	614	1,241	2,120
Total banks	-	-	-	-	4
Total governments	-	-	-	-	-
Total	627	144	614	1,241	2,124
Of which:					
Measured at present value of cash flows	512	138	186	698	
Debt under troubled debt restructuring	232	19	486	718	

(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) Re-classified.

Note 4 - 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

Consolidated

	December 31, 2014			December 31, 2013		
	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	149	20	20	[(6)]296	19	17
Construction and real estate - real estate operations	337	5	5	[(6)]389	2	2
Financial services	110	1	1	233	1	1
Commercial – other	330	16	15	407	14	13
Total commercial	926	42	41	1,325	36	33
Private individuals - housing loans	2	-	-	3	-	-
Private individuals - other	78	4	3	83	6	5
Total public – activity in Israel	1,006	46	44	1,411	42	38
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	1,006	46	44	1,411	42	38
Borrower activity overseas						
Public - commercial						
Construction and real estate	16	-	-	34	-	-
Commercial – other	3	-	-	3	-	-
Total commercial	19	-	-	37	-	-
Private individuals	1	-	-	2	-	-
Total public – activity overseas	20	-	-	39	-	-
Overseas banks	-	-	-	3	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	20	-	-	42	-	-
Total public	1,026	46	44	1,450	42	38
Total banks	-	-	-	3	-	-
Total governments	-	-	-	-	-	-
Total[(4)]	1,026	46	44	1,453	42	38

	December 31, 2012[(5)]
Average recorded debt balance of impaired loans to the public during reported period	1,562
Total interest revenues recognized in the reported period with respect to such loans in the period in which it was classified as impaired[(6)]	126
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	78
[(6)] Includes: Interest revenues recognized in accordance with cash basis accounting policies	120

(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) 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 91 million (as of December 31, 2013 - NIS 97 million).
(5) In conformity with the draft transition provisions for 2013, dated November 25, 2013, comparison figures may be included in the format specified in the appendix to transition provisions for 2012.
(6) Re-classified.

Note 4 - 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

Consolidated

	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.

Note 4 - 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

					December 31, 2013
					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]162	-	-	39	201
Construction and real estate - real estate operations	[4]355	-	1	-	356
Financial services	8	-	-	1	9
Commercial – other	57	-	-	26	83
Total commercial	582	-	1	66	649
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	27	-	1	35	63
Total public – activity in Israel	609	-	2	101	712
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	609	-	2	101	712
Borrower activity overseas					
Public - commercial					
Construction and real estate	3	-	-	2	5
Commercial – other	-	-	-	-	-
Total commercial	3	-	-	2	5
Private individuals	1	-	-	-	1
Total public – activity overseas	4	-	-	2	6
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	2	6
Total public	613	-	2	103	718
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	613	-	2	103	718

(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) Re-classified.

As of December 31, 2014, the Bank had no commitments to provide additional credit to debtors subject to troubled debt restructuring, as to which credit terms have been revised.

Note 4 - 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[2]					
	December 31, 2014			December 31, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	12	2	1	8	6	6
Construction and real estate - real estate operations	4	-	-	1	-	-
Financial services	5	-	-	2	1	1
Commercial – other	109	58	56	90	57	54
Total commercial	130	60	57	101	64	61
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	882	39	33	816	36	32
Total public – activity in Israel	1,012	99	90	917	100	93
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	1,012	99	90	917	100	93
Borrower activity overseas						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Commercial – other	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-
Private individuals	-	-	-	3	-	-
Total public – activity overseas	-	-	-	3	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	-	-	-	3	-	-
Total public	1,012	99	90	920	100	93
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	1,012	99	90	920	100	93

(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 4 - 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]			
	December 31, 2014		December 31, 2013	
			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	3	-	1	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	1	-	4	1
Commercial – other	32	3	12	12
Total commercial	36	3	17	13
Private individuals - housing loans	-	-	-	-
Private individuals - other	117	5	109	3
Total public – activity in Israel	153	8	126	16
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	153	8	126	16
Borrower activity overseas				
Public - commercial				
Construction and real estate	-	-	-	-
Commercial – other	-	-	-	-
Total commercial	-	-	-	-
Private individuals	-	-	-	-
Total public – activity overseas	-	-	-	-
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	-	-	-	-
Total public	153	8	126	16
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	153	8	126	16

(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 restructured under troubled debt restructuring in the 12 months prior to the date on which it became debt in arrears

Note 4 - 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:

Consolidated

					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

					December 31, 2013
Senior lien: LTV ratio	Up to 60%	48,070	1,362	36,502	2,664
	Over 60%	41,907	504	32,723	1,396
Junior lien or no lien		95	3	75	1,511
Total		90,072	1,869	69,300	5,571

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

Note 4 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk

Consolidated

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers[1]	Credit[2]	Credit risk[3]
				December 31, 2014
	Up to 10	193,580	246	281
Above 10	Up to 20	74,747	491	612
Above 20	Up to 40	112,434	1,508	1,788
Above 40	Up to 80	133,624	4,139	3,585
Above 80	Up to 150	96,320	7,571	3,057
Above 150	Up to 300	76,683	14,356	2,099
Above 300	Up to 600	70,163	28,649	2,611
Above 600	Up to 1,200	54,787	40,707	4,828
Above 1,200	Up to 2,000	11,563	14,903	2,211
Above 2,000	Up to 4,000	3,336	7,609	1,389
Above 4,000	Up to 8,000	1,030	4,079	1,455
Above 8,000	Up to 20,000	609	5,178	2,341
Above 20,000	Up to 40,000	208	3,680	2,316
Above 40,000	Up to 200,000	270	9,746	12,521
Above 200,000	Up to 400,000	35	4,601	5,333
Above 400,000	Up to 775,000	17	1,449	9,412
Total		829,406	148,912	55,839

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Regulation 313.

Note 4 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk

Consolidated – continued

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers[(1)]	Credit[(2)]	Credit risk[(3)]
				December 31, 2013
	Up to 10	189,377	247	256
Above 10	Up to 20	72,472	490	560
Above 20	Up to 40	111,308	1,526	1,676
Above 40	Up to 80	133,906	4,195	3,398
Above 80	Up to 150	93,678	7,393	2,771
Above 150	Up to 300	71,273	13,473	1,619
Above 300	Up to 600	65,883	26,832	1,807
Above 600	Up to 1,200	47,075	36,078	3,306
Above 1,200	Up to 2,000	9,304	12,928	1,722
Above 2,000	Up to 4,000	3,097	7,259	1,118
Above 4,000	Up to 8,000	1,003	4,181	1,197
Above 8,000	Up to 20,000	506	4,550	1,696
Above 20,000	Up to 40,000	221	3,698	2,329
Above 40,000	Up to 200,000	259	10,134	10,419
Above 200,000	Up to 400,000	41	4,380	7,497
Above 400,000	Up to 650,460	20	2,516	7,958
Total		799,423	139,880	49,329

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Regulation 313.

D. Purchase and sale of debt

	2014				2013			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Purchased loans	-	-	103	103	-	-	-	-

Note 5 - Loans to Governments

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2014	2013	2014	2013
Loans to Government of Israel	-	1	-	1
Loans to foreign governments	307	304	307	304
Total loans to governments	307	305	307	305

Note 6 - Investments in Investees and Details thereof
As of December 31,
Reported amounts (NIS in millions)

A. Consolidated

			2014			2013
	Associates	Subsi-diaries[1]	Total	Associates	Subsi-diaries[1]	Total
Investment in shares stated on equity basis	17	-	17	25	-	25
Subordinated notes and capital notes	35	-	35	35	-	35
Total investments	52	-	52	60	-	60
Of which:		-			-	
Losses accrued since acquisition date	(14)	-	(14)	(19)	-	(19)
Post-acquisition items accrued in shareholders' equity:		-			-	
Adjustments from translation of financial statements	1	-	1	(3)	-	(3)
Detailed information about goodwill:						
Original amount	-	140	140	-	140	140
Balance	-	87	87	-	87	87

(1) Balance of goodwill with respect to subsidiaries is included on the Bank's balance sheet under Intangible assets and goodwill.

Note 6 - Investments in Investees and Details thereof
As of December 31,

Reported amounts (NIS in millions)

B. The Bank

	2014			2013		
	Associates	Subsidiaries[1]	Total	Associates	Subsidiaries[1]	Total
Investment in shares stated on equity basis	17	1,933	1,950	25	1,797	1,822
Subordinated notes and capital notes	35	531	566	35	509	544
Total investments	52	2,464	2,516	60	2,306	2,366
Of which:						
Profits (losses) accrued since acquisition date	(14)	1,073	1,059	(19)	942	923
Post-acquisition items accrued in shareholders' equity:						
Adjustments from translation of financial statements	1	-	1	(3)	-	(3)
Adjustments for presentation of available-for-sale securities at fair value, net	-	(1)	(1)	-	(2)	(2)

Bank's share in profits (losses) of investees:

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Bank's share in before-tax operating profit (loss) of investees[3]	5	(4)	-	196	173	195
Bank's share in after-tax operating profit (loss) of investees[2]	5	(4)	-	144	118	142

(1) Balance of goodwill with respect to subsidiaries is included on the Bank's balance sheet under Investments in Investees.
(2) No loss from impairment of investees.

Note 6 - Investments in Investees and Details thereof - continued

As of December 31,

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31,			
		2014	2013	2014	2013
C. Details of principal investees(2)					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd.(3)	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland)(4)	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
2) Associates					
Psagot Jerusalem Ltd. (“Psagot”)	Land for construction	(8)20%	(8)20%	20%	20%
Rosario Capital Ltd. ("Rosario")	Underwriting company	19.99%	19.99%	19.99%	19.99%
Mustang Mezzanine Fund Limited Partnership	Extending credit	20%	20%	-	-
Planus Technology Fund	Extending credit	20%	20%	-	-
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)					
United Mizrahi Bank (Switzerland) Ltd.(6)	Commercial bank	100%	100%	100%	100%

(1) Includes capital notes.

(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.

(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible assets and goodwill and on the Bank's balance sheet under Investments in Investees.

(4) The company is incorporated in Holland; for a subsidiary of the Company, see section C. 3).

(5) Includes gain due to revaluation of the shekel, relative to foreign currency exchange rates, totaling NIS 14 million in 2014 (2013 – loss of NIS 16 million).

(6) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland. The investment is presented on the Bank's financial statements as an affiliate whose functional currency is identical to the Bank's.

(7) Includes gain due to revaluation of the NIS vs. the CHF, amounting to NIS 2 million in 2014 (2013 – loss of NIS 10 million).

(8) Share of contribution in case of loss is 27%.

(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

Investment in shares at equity value [9]		Goodwill balance [3]		Other capital investments[1]		Contribution to net profit (loss) attributable to equity holders of the banking corporation		Dividends recorded		Other items accrued under shareholders' equity	
As of December 31,						For the year ended December 31,		As of December 31,			
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
582	552	69	69	531	509	31	44	-	-	(1)	(2)
748	676	-	-	-	-	72	78	-	-	-	-
325	308	-	-	-	-	[5]17	[5](15)	-	-	-	-
26	25	-	-	-	-	1	1	-	-	-	-
42	41	-	-	-	-	1	2	-	-	-	-
33	24	-	-	-	-	9	7	-	-	-	-
(16)	(16)	-	-	35	35	-	-	-	-	-	-
2	2	-	-	-	-	1	1	(1)	-	-	-
25	33	-	-	-	-	4	(9)	-	-	3	(3)
6	6	-	-	-	-	-	5	-	-	1	-
224	218	-	-	-	-	[7]6	[7](9)	-	-	-	-

Note 6 - Investments in Investees and Details thereof - continued

Reported amounts (NIS in millions)

D. Balance of goodwill related to subsidiaries – consolidated and the Bank [1][2]

			December 31, 2014
	Cost	Accumulated amortization	Amortized balance
Consolidated	140	53	87
The Bank	140	53	87

(1) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2014 amounted to NIS 14 million (similar to amortized balance as of December 31, 2013 and as of December 31, 2012), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2014 amounted to NIS 4 million (similar to amortized balance as of December 31, 2013 and as of December 31, 2012).

(2) Balance of goodwill with respect to subsidiaries is included on the consolidated balance sheet under Intangible Assets and Goodwill and on the Bank's balance sheet under Investments in Investees.

Note 7 - Buildings and Equipment

Reported amounts (NIS in millions)

	Consolidated				The Bank			
	Buildings and land (including installations and leasehold improve-ments)	Equip-ment, furniture, and vehicles	Cost of software	Total	Buildings and land (including installations and leasehold improve-ments)	Equip-ment, furniture and vehicles	Cost of software	Total
A. Composition								
Average depreciation rate as of December 31, 2014	4.0%	13.8%	18.1%		3.0%	12.2%	18.3%	
Average depreciation rate as of December 31, 2013	4.1%	13.2%	17.3%		3.8%	12.9%	17.1%	
Cost of assets								
December 31, 2012	1,480	934	1,252	3,666	1,283	757	1,228	3,268
Additions	44	66	131	241	30	58	120	208
Disposals	(1)	(1)	(18)	(20)	(1)	(1)	(18)	(20)
December 31, 2013	1,523	999	1,365	3,887	1,312	814	1,330	3,456
Additions	69	72	167	308	64	66	124	254
Disposals	(31)	(7)	-	(38)	(31)	(6)	-	(37)
Cost of assets as of December 31, 2014	1,561	1,064	1,532	4,157	1,345	874	1,454	3,673
Depreciation								
Accumulated as of December 31, 2012	550	674	784	2,008	469	526	768	1,763
Depreciation	48	59	136	243	34	52	129	215
Disposals	(1)	(1)	(18)	(20)	(1)	(1)	(18)	(20)
Accumulated as of December 31, 2013	597	732	902	2,231	502	577	879	1,958
Depreciation	37	62	147	246	25	53	142	220
Disposals	(17)	(5)	-	(22)	(17)	(4)	-	(21)
Accumulated depreciation as of December 31, 2014	617	789	1,049	2,455	510	626	1,021	2,157
Balance to be depreciated								
As of December 31, 2014(1)	944	275	483	1,702	835	248	433	1,516
As of December 31, 2013(1)	926	267	463	1,656	810	237	451	1,498
As of December 31, 2012(1)	930	260	468	1,658	814	231	460	1,505

(1) Includes amortized capitalized cost of independently developed computer software as of December 31, 2014 amounting to NIS 337 million - consolidated and 327 million for the Bank (December 31, 2013 - NIS 343 million consolidated and for the Bank; December 31, 2012 - NIS 360 million, consolidated and for the Bank).

Note 7 - Buildings and Equipment - continued

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2014	2013	2014	2013
B. Assets not used by the Group: (balance for amortization)				
Not designated for sale	48	25	48	25
Includes - leased to others	48	25	48	25
Designated for sale(1)	5	-	5	-

(1) In addition, there are assets used by the Group and designated for sale, as of December 31, 2014, amounting to NIS 7 million (as of December 31, 2013 – NIS 12 million).

	Lease term	Consolidated		The Bank	
	end dates	December 31,		December 31,	
	(In years)	2014	2013	2014	2013
C. Leasing rights to buildings (balance for amortization):					
Capitalized lease	4-58	73	76	73	76
Non-capitalized lease	0-9	28	27	28	27

D. For the years ended December 31, 2014 and December 31, 2013, no impairment loss was recognized nor de-recognized with respect to buildings and equipment.

E. This item includes installations, leasehold rights and payments on account. Part of the buildings and leasing rights, amounting to NIS 328 million consolidated and to NIS 303 million for the Bank (as of December 31, 2013 - NIS 297 million consolidated and NIS 270 million for the Bank), yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries. Most of these properties are in the process of being registered.

F. As of December 31, 2014, the Bank Group has a commitment to acquire and refurbish buildings, amounting to NIS 6 million (as of December 31, 2013 – NIS 10 million).

Note 8 - Other Assets
As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2014	2013	2014	2013
Deferred taxes receivable, net[1]	819	856	767	807
Excess of advance tax payments over current provisions	215	118	166	94
Revenues receivable	105	99	43	51
Other receivables and debit balances	942	1,131	914	1,112
Total other assets	2,081	2,204	1,890	2,064

(1) See Note 28.

Note 9 - Deposits from the Public
As of December 31,

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	Consolidated		The Bank	
	2014	2013	2014	2013
In Israel				
On-call				
Non interest-bearing	22,540	(2)15,411	17,176	(2)11,431
Interest-bearing	5,933	(2)4,804	4,690	(2)4,049
Total on-call	28,473	20,215	21,866	15,480
Term deposits	119,751	117,140	126,403	118,861
Total deposits in Israel[1]	148,224	137,355	148,269	134,341
Outside of Israel				
On-call				
Non interest-bearing	682	654	682	654
Interest-bearing	6	-	6	-
Total on-call	688	654	688	654
Term deposits	3,467	3,235	2,877	2,761
Total deposits overseas	4,155	3,889	3,565	3,415
Total deposits from the public	152,379	141,244	151,834	137,756
(1) Includes:				
Deposits from individuals	70,707	65,819	53,276	49,708
Deposits from institutional investors	44,010	41,918	44,010	41,914
Deposits from corporations and others	33,507	29,618	50,983	42,719

B. Deposits from the public by size on consolidated basis

	2014	(2)2013
Maximum deposit		
Up to 1	50,887	48,678
1 to 10	31,119	25,226
10 to 100	15,522	14,810
100 to 500	15,511	13,507
Above 500	39,340	39,023
Total	152,379	141,244

(2) Reclassified.

Note 10 - Deposits from Banks

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2014	2013	2014	2013
In Israel				
Commercial banks:				
On-call deposits	75	271	79	288
Term deposits	1,001	1,351	8,083	7,208
Acceptances	168	358	168	358
Outside of Israel				
Commercial banks:				
On-call deposits	2	59	-	59
Term deposits	12	2	3	2
Total deposits from banks	1,258	2,041	8,333	7,915

Note 11 - Debentures and Subordinated Notes
As of December 31,

Reported amounts (NIS in millions)

	Average maturity in years[1]	Internal rate of return[2]	Consolidated 2014	Consolidated 2013	The Bank 2014	The Bank 2013
Debentures and subordinated notes not convertible into shares:						
In Israeli currency - non-linked						
Debentures	3.01	3.06%	2,376	2,146	-	-
In Israeli currency - CPI-linked						
Debentures	2.52	1.06%	11,871	7,757	-	-
Subordinated notes[3]	4.42	4.70%	6,333	6,540	3,777	3,985
Total debentures and subordinated notes	3.71	2.82%	20,580	16,443	3,777	3,985

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.
(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.
(3) Upon dissolution, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of the Bank’s subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Conduct of Banking Business Regulation 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes. Note, that should the Bank issue complex tier I capital, in the future the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading. On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from AA- to A+.

Note 11 - Debentures and Subordinated Notes - continued

On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).

The Bank has issued to the public, pursuant to a prospectus dated May 20, 2007, subordinated capital notes (Series A) whose balance as of December 31, 2014 amounted to NIS 1,981 million par value, amounting to NIS 1,702 million for consideration of NIS 1,644 million.

B. Mizrahi Tefahot Issue Company (“the Company”), a company wholly-owned and controlled by the Bank, issued to the public pursuant to a prospectus CPI-linked, debentures and subordinated notes with a par value of NIS 13,239 million and non-linked debentures with a par value of NIS 2,342 million, as of December 31, 2014, and deposited the proceeds in the Bank earmarked for its day-to-day activities.

To secure fulfillment of the Company’s obligations with respect to some of the debentures and subordinated notes totaling NIS 200 million, the Company undertook to assign all of its rights in each of the deposits that it had deposited in the Bank from the proceeds of securities offered pursuant to the Prospectus in favor of the Trustee of the issued securities.

In 2014, the Company issued additional debentures (Series 35 and 36) amounting to NIS 1,650 million par value for consideration of NIS 1,690 million and issued new debentures (Series 37 and 38) amounting to NIS 1,243 and 2,876 million par value, respectively for consideration of NIS 1,243 and 2,876 million.

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

Note 12 - Other Liabilities

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2014	2013	2014	2013
Provision for deferred taxes, net[(1)]	54	36	54	36
Excess of provision over funding severance pay, retirement and pension[(2)]	653	674	626	641
Unearned revenues	231	296	231	296
Accrued expenses	213	234	149	196
Provision for unutilized vacations and long- service bonus	136	127	114	106
Guarantees payable	73	72	73	72
Provision for doubtful debts for off-balance sheet and other items	102	103	101	102
Payables for credit card operations	3,292	3,186	2,059	1,978
Market value of securities sold short	390	715	390	715
Other payables and credit balances	928	507	893	441
Total other liabilities	6,072	5,950	4,690	4,583

(1) See Note 28.
(2) See Note 16

Note 13 - Share capital and shareholders' equity [1]

A. Details on share capital of the Bank (in NIS):

	Registered		Issued and paid-in[3]	
	December 31,		December 31,	
	2014	2013	2014	2013
Ordinary shares, NIS 0.1 par value[2]	40,000,000	40,000,000	23,321,941	23,197,848

(1) For allotment of stock options – see Note 16.A.

(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

(3) Includes 2,500,000 dormant shares, acquired and held by the Bank. For details, see section D. below.

B. On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policies, whereby, provided that the Bank's capital ratio is not less than 10%, dividends will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policies are in effect as from the year 2006.

On July 23, 2012, the Bank Board of Directors determined, in conjunction with approval of the new strategic five-year plan for 2013-2017, that during the plan term, the Bank's adopted dividend distribution policies would be maintained, subject to the Bank’s core capital ratio being no less than the target set by the Board of Directors.

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

These resolutions supersede the Board of Directors' resolutions dated July 23, 2012, with regard to bringing forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014.

On December 23, 2014, in addition to the update to the Bank's strategic plan, the Bank’s Board of Directors approved a revised dividend distribution policy, whereby the Bank would distribute, with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015) dividends 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 equity ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

Note 13 - Share Capital and Shareholders' Equity[1] - continued

In 2017, the dividend policy would be as specified in section 1.C. of the previousImmediate Report. This is subject to the Bank's Tier I equity ratio bring 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.

It should be noted that a dividend distribution by the Bank is subject, in addition to the aforesaid, to the provisions of the law and additional limitations stipulated in Proper Conduct of Banking Business Regulations No. 331.

C. Information on dividend distribution limitations is provided below:

- According to the directives of the Supervisor of Banks with respect to a dividend distribution by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its adjusted shareholders' equity. As of December 31, 2014, the Bank's reported capital exceeds its non-monetary assets by NIS 7,371 million.
- The permit issued to the purchasers of the controlling interest by the Governor of the Bank of Israel stipulates that dividends will not be distributed out of profits accruing until September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.

Furthermore, the Bank may not distribute dividends without prior consent of the Supervisor of Banks for such distribution, when:

1. The Bank's retained earnings, net of negative differences included under Other Comprehensive Income, are not positive.
2. One or more of the most recent three years ended in comprehensive loss.
3. Cumulative results for the three quarters ending at the end of the interim period for which the most recent financial statements have been published - show a comprehensive loss.

D. On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute and to conditions specified in the Supervisor's approval. On July 20, 2009 the Bank's Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions stated in the Supervisor's approval. On September 24, 2009, the Bank completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million.

The shares held by the Bank are designated to be provided as consideration for exercise of stock options under the stock option plan for VPs - for details see Note 16.A. In accordance with the condition prescribed in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all options allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of options in accordance with the stock option plan.

In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as mentioned above. The Bank's Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria specified in the Companies Law and complies with terms and conditions stated in Proper Conduct of Bank Businesses Regulation No. 331. The Board of Directors has reexamined Bank compliance with distribution tests stated in the Companies Law, as well as compliance with conditions statted in Regulation 331, immediately prior to these acquisitions.

On January 30, 2013, the Bank of Israel allowed the Bank to use the excess shares for its 2013 stock option plan for managers who are not part of Bank management nor Bank officers. The Bank should sell the remaining excess shares (if any) immediately after the end of the exercise period of options pursuant to the stock option plan for managers who are not part of Bank management nor Bank officers, or pursuant to the original plan - whichever is later.

On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares.

On July 17, 2014, the Bank submitted the detailed buy-back plan by dates, as requested by the Supervisor of Banks.

The buy-back plan is in five stages, from the fourth quarter of 2015 to the fourth quarter of 2017, with restrictions for each buy-back lot and in total not to exceed 5 million shares. The Bank would sell any surplus shares after the end date for exercising all options under the stock option plan.

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions specified between the Bank and the Supervisor of Banks.

On August 13, 2014, the Bank's Board of Directors approved the aforementioned share buy-back outline. The buy-back plan, including its execution, shall be brought for approval by the Board of Directors, should it be put into action.

Buy-back of Bank shares is tantamount to a dividend distribution.

Note 14 – 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 December 31, 2014	As of January 1, 2014	As of December 31, 2013
		Basel III[1]	Basel II[2]
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier 1 capital	11,370	10,206	-
Tier 1 capital	11,370	10,206	10,217
Tier 2 capital	4,883	4,850	4,569
Total capital	16,253	15,056	14,786
B. Weighted risk asset balances			
Credit risk	116,291	108,917	105,411
Market risk	1,020	842	842
Operating risk	7,383	7,154	7,154
Total weighted risk asset balances	124,694	116,913	113,407
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I common equity to risk elements	9.12	8.73	[3] -
Ratio of Tier I capital to risk elements	9.12	8.73	9.01
Ratio of total capital to risk elements	13.03	12.88	13.04
Minimum Tier I capital ratio required by Supervisor of Banks	[4]9.00	[4]9.00	7.50
Total minimum capital ratio required by the Supervisor of Banks	[4]12.50	[4]12.50	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I common equity to risk elements	9.55	9.90	[3] -
Ratio of Tier I capital to risk elements	9.55	9.90	10.00
Ratio of total capital to risk elements	13.65	14.19	15.03
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	7.50
Total minimum capital ratio required by the Supervisor of Banks	13.00	13.00	9.00

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.

(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through December 31, 2013.

(3) The requirement as to Minimum Tier I capital adequacy ratio applies as from January 1, 2014.

(4) 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 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 required for the first quarter of 2015 is 9.0%. The minimum Tier I capital ratio required for April 1, 2015 is expected to be 9.1% and is calculated based on data known as of the date of these financial statements.

Note 14 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

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

Reported amounts (NIS in millions)

	As of December 31, 2014	As of January 1, 2014 Basel III[(1)]	As of December 31, 2013 Basel II[(2)]
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier 1 capital			
Shareholder equity	11,500	10,335	10,335
Differences between shareholder equity and Tier 1 capital	(37)	(35)	(14)
Total Tier 1 equity before regulatory adjustments and deductions	11,463	10,300	10,321
Regulatory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Regulatory adjustments and other deductions - Tier 1 capital	(6)	(7)	(17)
Total regulatory adjustments and other deductions - Tier 1 capital	(93)	(94)	(104)
Total Tier 1 capital after regulatory adjustments and deductions	11,370	10,206	10,217
B. Tier 2 capital			
Tier 2 capital: Instruments, before deductions	3,573	3,573	4,467
Tier 2 capital: Provisions, before deductions	1,310	1,277	
Total Tier 2 capital, before deductions	4,883	4,850	
Deductions:			
Total deductions - Tier 2 capital	-	-	(8)
Total Tier II capital	4,883	4,850	4,569

4. Effect of transitional provisions on Tier 1 capital ratio (for details see section H. below):

	As of December 31, 2014	As of January 1, 2014 Basel III[(1)]
Ratio of capital to risk elements		
Ratio of Tier I equity to risk elements before application of transitional provisions	[(3)]8.90	8.60
Effect of transitional provisions	0.22	0.13
Ratio of Tier I equity to risk elements before application of transitional provisions	9.12	8.73

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.

(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through Decembr 31, 2013.

(3) Including the expected effect of initial adoption of US GAAP with regard to employee rights, based on data anticipated as of January 1, 2015.

Note 14 - 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 currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017. The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank.

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%

In addition, the credit conversion factor for guarantees to secure investments of apartment buyers was reduced from 20% to 10% if the apartment has been delivered to the resident.

Note 14 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

G. On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank would count as lower Tier II capital with regard to maintaining a minimum capital ratio.
Changes to conditions for recognition as lower Tier II capital, following implementation of Basel III directives, would retroactively apply to these notes.

H. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business 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 criteria were specified for capital instruments classified as Tier I additional capital and as Tier II capital. These instruments are to include a mechanism for absorbing 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 14 - 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 14 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

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.

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 equity 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.

Note 15 - Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 19.D.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) Government debentures of the Bank were deposited in the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2014 - NIS 42 million wasdeposited. (As of December 31, 2013 - NIS 28 million).
2) Additionally, in the account opened by the stock exchange clearinghouse in its name for the Bank in another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from the securities, including cash proceeds from their sale. As of December 31, 2014, deposits to this account amounted to NIS 32 million (as of December 31, 2013 - NIS 32 million).
3) The accounts discussed in Par. 1 and 2 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 19.D.2.

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2014 is NIS 1,272 million (as of December 31, 2013 – NIS 662 million).
2) Additionally, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2014, deposits to this account amounted to NIS 48 million (as of December 31, 2013 - NIS 33 million).
3) The aforementioned accounts in sections 1-2 are pledged under a floating and fixed lien to benefit the MAOF clearinghouse.

Note 15 - Liens – continued

C. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) - a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2014 and as of December 31, 2013, no debentures were deposited in this account.

D. In accordance with the requirement of the regulatory agencies in the U.S., the Bank's branch there pledged securities worth USD 14 million as of the balance sheet date (as of December 31, 2013– USD 17 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives. Most of the amount pledged, which as of December 31, 2014 amounted to USD 10 million (as of December 31, 2013 – USD 12 million), relates to a demand by U.S. regulatory agencies to secure 7.5% of the branch's liabilities, as defined by the authorities there.

E. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2014, the Bank did not pledge any foreign securities (as of December 31, 2013, the Bank did not pledge any foreign securities).

F. Debentures acquired by Bank Yahav, held at Bank HaPoalim, are pledged by floating lien in favor of the Bank of Israel.

G.

		December 31,
	2014	2013
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	107	70

Note 16 - Employees' Rights

A. The employment terms of the vast majority of the Group's employees and managers (except for those detailed in paragraphs B - I below) are determined in accordance with the provisions of collective labor agreements. Liabilities to these employees, except for Bank Yahav employees as stated in section M 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 on February 1, 2006 (with respect to previous Tefahot management, the Bank is absolved from its obligation commencing January 1st, 2006). with respect to the bBank'sobligation 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.

B. 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.

C. On June 17, 2013, the General Meeting of Shareholders approved the Bank's contracting of terms of office and employment of the Chairman of the Bank's Board of Directors.

Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman :

Mr. Moshe Vidman serves as Chairman of the Bank Board of Directors, at a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and would terminate on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice.

For his work, the Chairman is entitled to monthly salary at NIS 180 thousand, fully linked to the Consumer Price Index, based on the CPI known on December 1, 2012. The Chairman would also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments would be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas.

The Bank provides to the Chairman of the Board of Directors a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Note 16 - Employees' Rights - continued

Upon termination of the Chairman's employment, the Bank would pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also pay an acclimation bonus equal to 6 monthly salaries plus social benefits.

In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he would be paid additional amounts as stipulated in the employment agreement - subject to conditions stated in the employment contract.

Upon termination of the Chairman, the Bank would provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank would also release the study fund to the Chairman.

All other terms of office and employment of the Chairman of the Board of Directors were listed in an Immediate Report dated April 24, 2013, reference number 2013-01-044368. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2013, such that the total annual bonus paid to the Chairman of the Board of Directors for 2013 amounted to NIS 1,016 thousand. (For details of the formula for the annual monetary bonus payable to the Chairman of the Board of Directors, see revised Immediate Report dated June 6, 2013, reference: 2013-01-059052. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.) For other components of the Chairman's remuneration, see p. 219 of the Bank's 2013 Annual Financial Statements.

D. On December 30, 2013, the Remuneration Committee discussed and approved terms of the non-recurring bonus to the former Chairman of the Board of Directors with respect to 2012. Furthermore, on February 17, 2014, the Bank Board of Directors discussed and approved terms of this bonus, subject to approval by the General Meeting of Bank shareholders.

On March 25, 2014, the General Meeting of Bank Shareholders approved the non-recurring bonus amounting to NIS 615 thousand. For more information, see Immediate Report dated March 25, 2014, reference 2014-01-023394.

This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 16 - Employees' Rights - continued

E. On June 17, 2013, the Bank Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013.

On May 4, 2014, the Bank Board of Directors approved, after approval by the Remuneration Committee, the Bank President's terms of office and employment. On June 10, 2014, these terms of office and employment were approved by the General Meeting of Bank shareholders.

The Bank President's terms of office and employment were set in conformity with the Bank's remuneration policy as adjusted for Bank of Israel regulations, as described above. This policy was approved by the Remuneration Committee, the Bank Board of Directors and the General Meeting of Bank shareholders.

Below is a summary of the terms of office and employment of the Bank President & CEO - as listed in Appendix B to a report issued by the Bank on May 4, 2014, reference 2014-01-056838 (hereinafter: "Appendix B to the immediate report"):

The employment contract is for an unlimited term and either party may terminate it for any reason by three months' advance notice to the other party.

For his work, the Bank President is entitled to monthly salary at NIS 185 thousand, fully linked to the Consumer Price Index, based on the CPI known on August 16, 2013, and to benefits.

The Bank provides to the Bank President a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Bank President & CEO, to a study fund at 7.5% of his salary.

Upon termination of the Bank President & CEO's employment, at any time and for any reason, the Bank would pay him a retirement bonus equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also issue a letter releasing all contributions made pursuant to the individual employment contract signed by the Bank and by the Bank President & CEO, with regard to the latter's work for the Bank prior to their appointment as President & CEO. The Bank would also release to the President their study fund and would also pay, in exchange for non-competition, an acclimation bonus equal to 6 monthly salaries plus social benefits. Furthermore, upon termination of the Bank President's employment, he would be paid other amounts as set forth in the employment contract, subject to conditions set forth in the employment contract.

The Bank President committed that for six (6) months after termination of his position and employment with the Bank, for any reason, he would not directly or indirectly act or engage in or on behalf of any other banking corporation and would not serve as officer of or on behalf of any entity which competes with Bank business.

Variable remuneration based on targets and performance

According to the employment contract, the Bank President would be eligible for a monetary bonus and equity-based remuneration, in conformity with the Bank's remuneration policy as it may be from time to time, with a mix and subject to conditions as approved.

Note 16 - Employees' Rights - continued

Monetary bonus – According to the employment contract, the Bank President would be eligible for a monetary bonus, capped at NIS 1,517 thousand plus CPI linkage differentials, based on the CPI known on August 16, 2013 - for each calendar year between 2014-2016. This is subject to meeting threshold conditions during the bonus year, based on rates of return on equity, overall capital adequacy ratio and core capital adequacy ratio at the Bank for the bonus years. The monetary bonus is performance-dependent and constitutes part of the Bank President's variable remuneration. For details of threshold conditions for eligibility for the monetary bonus, conditions for eligibility for the monetary bonus, the Board of Directors' authority to reduce the monetary bonus and provisions with regard to reimbursement of the monetary bonus – see Appendix B to the Immediate Report.

Equity-based remuneration – As part of the Bank President's variable remuneration for 2014-2016, the Bank President is eligible for equity-based remuneration which includes a plan for award of options by private offering the Bank President.

For more information about the option plan, see Note 16.A.1.

F. The Bank's former President & CEO (hereinafter: "the former President & CEO") entered into an agreement with the Bank ("the agreement") whereby he was employed by the Bank for a term of 5 years and 4 months starting December 1, 2008 and ending April 1, 2014. Pursuant to the agreement, the former President & CEO is entitled to receive upon termination of his employment for any reason whatsoever (other than termination under specific circumstances specified in the employment agreement) severance pay equal to 200% of his most recent monthly salary upon termination of his employment for each year of service to the Bank, a 3-month adjustment period as well as current amounts with respect to pension payments deposited on his behalf at the usual rates. The financial statements included provisions for these liabilities.

In the agreement, the former President & CEO waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement. For details of options to acquire Bank shares allotted to the former President & CEO under the most recent agreement, see Note 16.A.2.

At the Board meeting held on April 24, 2013, the Bank's former President announced his intention to not continue in his office for a further term. On August 15, 2013, he concluded his term in office as Bank President.

His employment was terminated on April 1, 2014, in conformity with the former President's employment contract dated November 30, 2008.

Note 16 - Employees' Rights – continued

G. 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 also eligible, upon retirement, to other sums and rights, as accrued in their favor in various funds and are also entitled to three to six months' advance notice of termination of their employment. eligible to . 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.

H. Senior officers are eligible upon their retirement to an acclimation bonus of up to six months' salary. A provision has been made on the financial statements for this eligibility.

I. A senior Bank employees are eligible for increased severance pay of 150% of their salary for December 2011, multiplied by the number of their years of employment in the Bank, as of said date and linked to the Consumer Price Index. This pay is over and above the amounts deposited in their name in funds, as required by law. The employee is also eligible for an acclimation bonus equal to six months' salary at their most recent monthly salary.

Another senior Bank employee is eligible, upon departure from the Bank, to early pension payments at 70% of the amount stated in a special agreement in 2010, linked to the Consumer Price Index.

A provision has been made on the financial statements for this eligibility.

J. A pension agreement was signed with an employee of an overseas affiliate of the Bank, whereby he would be entitled to a monthly pension for 180 months from retirement, after aggregating 20 years' seniority in the Bank, and under certain other circumstances prescribed in the agreements. The actuarial value of the provision recorded in the financial statements for this liability was calculated using a discount rate of 6%, which corresponds with the yield on the monies deposited for payment of these pension rights, and assuming that the annual pay raise will be at a rate of 3.5%.

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

Note 16 - Employees' Rights - continued

L. On September 16, 2009, a special collective bargaining agreement was signed with the employee union - clerks sector, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank's Board of Directors on October 19, 2009.

Highlights of this agreement are as follows:

- Extension of the "employment constitution" through December 31, 2015.
- Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
- Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
- The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
- Enactment of a voluntary retirement program by up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
- Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

The cost of the voluntary retirement program is covered by an actuarial provision.

M. Long-service bonuses

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

N. Provisions for long-service bonuses and the voluntary retirement agreement were based on actuarial calculations using a 4% discount rate. This calculation was made considering a 2.5% real future increase in salary.

The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

For information about adoption of accounting rules in the USA with regard to employee rights, including changes to determination of the discount rate, see Note 1.AA.1.

O. Bonuses for officers

1. On May 19, 2008, the Board of Directors, after receiving approval of the Audit Committee, resolved to approve a bonus framework for Bank officers, other than Board members including the Chairman of the Board of Directors and other than the Bank President (hereinafter in this section "the officers") for each of the years 2008-2012 (inclusive) (each of these years hereinafter in this section "report year") inter alia by way of creating a pool for bonus payments to officers. On March 2, 2009, an amendment to the bonus plan was approved, concerning the date on which the Board of Directors would discuss bonus payments pursuant to the aforementioned plan (hereinafter: "the bonus plan"). On October 26, 2010, an amendment of the bonus plan was approved, with regard to the annual rate of return for each of the years 2010 through 2012.
2. For details of the stock option plan for VPs, in which the offerees waived their right to receive a bonus as stated above, see Note 16.A.3.
3. On November 19, 2013, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 301A concerning remuneration policies at banking corporations. As this directive became effective and further to discussions between the Bank and the Supervisor of Banks, the Bank has acted to revise the remuneration policy for officers, approved by the General Meeting of Bank shareholders on August 27, 2013 (hereinafter: "the **original remuneration policy**").

   Accordingly, on April 29, 2014, the Remuneration Committee resolved to recommend that the Bank Board of Directors should approve the revision of the original remuneration policy. On May 4, 2014, the Bank Board of Directors approved the aforementioned policy and on June 10, 2014, the General Meeting of Bank shareholders approved the revised officer remuneration policy.

   The revised remuneration policy incorporates provisions of the Corporate Act and directives by the Supervisor of Banks concerning remuneration, with general principles which the Bank Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, *inter alia*, to the Bank's strategic plan and to current employment terms of officers at the Bank.

   The remuneration of officers, other than Board members, will include two major components: A monthly salary (as well as related benefits) and variable, performance-based remuneration which will include a monetary bonus and long-term share-based remuneration. The remuneration package may also include remuneration related to retirement. The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

   As stipulated by Bank of Israel directives with regard to remuneration, the maximum variable remuneration shall not exceed 100% of the fixed remuneration. The Bank Board of Directors also specified that the maximum variable remuneration for officers who are gatekeepers would not exceed 77% of the fixed remuneration.

The reasons cited by the Remuneration Committee and by the Bank Board of Directors for approval of the revised remuneration policy were:

- The revised remuneration policy is in conformity with Regulation 301A.
- The revised remuneration policy is in conformity with statutory provisions and offers Bank management tools for recruiting and preserving officers with skills appropriate for the Bank, since officer remuneration terms are a proper incentive for incumbents and future candidates for senior positions with the Bank.
- When setting the revised remuneration policy, the Remuneration Committee and the Bank Board of Directors reviewed the current situation at the Bank as well as officer remuneration at other major banks.
- The remuneration composition was specified by position, with a distinction made between officers who are gatekeepers and other officers.
- The variable components in the revised remuneration policy, including how they are determined and their ratio to the fixed component, were reviewed with attention to the officer's contribution to achievement of Bank objectives, considering the Bank's strategic plan and maximizing Bank profit, from a long-term view and based on the officer's role.
- The revised remuneration policy provides Bank management with reasonable leeway in exercising judgment when setting officers' remuneration terms. The ratio of officers' remuneration to that of other Bank employees is reasonable and should not affect labor relations at the Bank due, *inter alia*, to the Bank structure where officers are few in proportion to all Bank employees and due to the differences in roles and responsibilities of officers compared to other Bank employees. It was further noted that these ratios reflect common remuneration gaps in the Israeli banking system, given that the Bank enjoys correct labor relations.
- The revised remuneration policy is in line with the Bank's results in recent years.
- For more information about the revised remuneration policies, its guidelines and scope – see Appendix A to Immediate Report dated May 4, 2014, reference 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

P. **Bonuses for all Bank employees**

On June 19, 2014, the Bank Board of Directors, based on recommendations by the Remuneration Committee, approved a remuneration policy for all Bank employees other than officers. The remuneration policy is based on Proper Conduct of Banking Business Regulation 301A with regard to remuneration policy at banking corporations (hereinafter: "the **remuneration policy**").

The remuneration policy discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2014-2016.

Note 16 - Employees' Rights - continued

The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

Q. 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. Retiring Bank Yahav employees are also entitled, under the labor agreement, to partial redemption of unused sick days.

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.

R. The provisions and deposits for employees' rights to pension, severance pay and acclimation grants are included in "other liabilities", as follows (reported amounts, NIS in millions):

		Consolidated		The Bank
	2014	2013	2014	2013
Provision amount	758	788	637	651
Deposit amount [(1)]	105	114	11	10
Excess of provision over deposit	653	674	626	641

(1) The Bank and its subsidiaries may not withdraw the funded amounts other than for severance payment.

S. Provisions for employees' rights to paid leave, redemption of unused sick leave and seniority grants are included in "other liabilities" as follows (in reported amounts, NIS in millions):

		Consolidated		The Bank
	2014	2013	2014	2013
Provision for vacation	108	101	100	93
Provision for seniority bonuses	28	26	14	13
Provision for redemption of sick leave[(1)]	16	15	-	-

(1) Presented under Other Liabilities, under Other Accounts Payable.

Note 16.A. – Share-based Payment Transactions

1. **Stock option plan for the President**

As part of the option plan and in conformity with its terms and conditions, the Bank would allot to a trustee, on behalf of the Bank President & CEO, options in three annual lots as follows: 186,915 options for 2014, 177,720 options for 2015 and 172,503 options for 2016. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercise shares, all options allotted under the stock option plan to the Bank President pursuant to the option plan (based on the report "Equity status and securities registries of the corporation and changes there to", issued by the Bank on April 10, 2014) would be equal to 0.23% of the Bank's issued share capital and voting rights (after allotment of the full number of exercise shares), and assuming full dilution – 0.18% of the Bank's issued share capital and voting rights.

For details of threshold conditions for eligibility for options, conditions for eligibility for the options and the Board of Directors' authority to reduce the number of options – see Appendix B to the Immediate Report issued by the Bank on May 4, 2014, reference 2014-01-056838 (hereinafter: “Appendix B to the Immediate Report”).

The Bank President's eligibility for options included in any annual lot would be calculated soon after publication of the Bank's financial statements for the bonus year for which the annual lot has been allotted, based on fulfillment of the specified eligibility conditions.

Each of the annual lots for 2014-2016 would vest in three equal parts as from April 1 of 2016-2020, as specified in Appendix B to the Immediate Report.

The exercise price for each option to be allotted to the Bank President pursuant to the plan is NIS 46.19 plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually allotted to the Bank President.

For calculation of fair value as of approval of the option award by the General Meeting of Bank Shareholders, as noted above, the following terms of the option plan and the following data and assumptions, as specified in Appendix B to the Immediate Report, were taken into account:

Based on the aforementioned assumptions, as determined in Appendix B to the Immediate Report, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is as follows: Options included in the first lot - NIS 7.90; options included in the second lot - NIS 8.37; options included in the third lot - NIS 8.67.

Note 16.A. – Share-based Payment Transactions - continued

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting rules of IFRS 2, amounts to NIS 4.5 million (NIS 5.3 million including Payroll Tax). This value will be recognized over the eligibility period in non-linear fashion.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the Bank President from exercise of these options shall be taxed at the marginal tax rate applicable to the Bank President upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the President from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the Bank President & CEO, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other terms of office and employment of the President were listed in Appendix B to an Immediate Report dated May 4, 2014, reference number 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

2. **Stock option plan for the former President & CEO**

On November 30, 2008, the Bank’s Board of Directors, following approval by the Ban”sk Audit Committee at its meeting on November 30, 2008, resolved to approve the new stock option plan for allotment of options by private offer to the Bank’s former President & CEO.

In conjunction with the stock option plan, the Bank allotted to a trustee on February 1, 2009, on behalf of the Bank's former President & CEO, at no cost 5,571,381 options, each exercisable into one Bank ordinary share of NIS 0.1 par value, subject to adjustment for distribution of bonus shares, rights issuance, split or reverse split of shares or dividend distribution.

Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercised shares, all options allotted under the stock option plan would be equal to 2.44% of the Bank's issued share capital and voting rights (after allotment of the full number of exercised shares), and assuming full dilution – 1.54% of the Bank's issued share capital and voting rights.

Should the former President & CEO elect to exercise the options, in whole or in part, by way of allotment against the benefit amount, as specified below, then the assumption with regard to allotment of the maximum number of exercised shares is merely theoretical, since in this way the full amount of resulting exercised shares would not be allotted, but rather only enough shares to reflect the monetary benefit amount inherent in the options, as stated below.

The trustee would grant the options to the Bank's former President & CEO, subject to provisions of the stock option plan, in 5 lots (4 equal lots of 1,114,276 options each, and one lot of 1,114,277 options) on April 1 of each year between 2010-2014.

Note 16.A. – Share-based Payment Transactions - continued

The Bank's former President & CEO may exercise the options as from the grant date through April 1, 2014 or through the second anniversary of his last day in office as Bank President & CEO, whichever is later, but no later than April 1, 2016.

At the Board meeting held on April 24, 2013, the Bank's former President & CEO announced his intention not to continue in his office for a further term. On August 15, 2013, he concluded his term in office as Bank President & CEO.

The exercise price for each option is NIS 21.18, plus linkage differentials to the Consumer Price Index starting on the date on which the Board of Directors approved the stock option plan and up to the CPI known upon the exercise date. The exercise price has been determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 (the trading day preceding the date on which the recommendation by the Compensation Committee was received, as mentioned above). Note that the exercise price is higher by 9.5% than the closing price of Bank shares on the stock exchange on November 27, 2008 (NIS 19.35), when the exercise price was discussed by the Audit Committee, which was the trading day preceding the date on which the Board of Directors approved the employment agreement and the stock option plan.

The options may be exercised, in whole or in part, in any of the following ways:

1) Each option would be exercised into one Bank share (subject to adjustments), in exchange for payment of the full exercise price.
2) The Bank would allot, at no cost, a number of shares whose market value based on the closing price for Bank shares on the stock exchange on the trading day preceding the exercise date would be equal to the monetary benefit amount inherent in the options upon the exercise date.

The Bank applies IFRS 2 "Share-based Payment". In accordance with provisions of this standard, the Bank recorded in its financial statements an expense equal to the fair value of the options. The expense, for each of the 5 lots, was allocated over the period from the allotment date to the grant date for that lot. The theoretical fair value of the options was calculated using the Black & Scholes model. Calculation of the fair value accounts for terms and conditions of the plan as well as for the following data and assumptions:

1) Calculation of the fair value does not account for the fact that the options would not be listed for trading on the stock exchange, nor does it account for blocking of the options, as set forth in the stock option plan.
2) The exercise price for each option, for the purpose of this calculation, is NIS 21.18 as stated above.
3) It was assumed that all options would be exercised on the last day of the exercise period, i.e. expected duration of 7 years and 4 months.
4) The standard deviation used for this calculation was 27.06%, which was calculated by measuring the historic standard deviation of share prices on the stock exchange over a period equal to the expected duration of the options, ending on November 27, 2008.

5) The risk-free interest rate used for the calculation - 3.88% - was calculated based on interest rate quotes for risk-free, CPI-linked NIS-denominated assets traded on the stock exchange as of November 27, 2008 for a term equal to the expected duration for exercise of each option.
6) The exercise price is adjusted for dividends, so that the dividend yield assumed for this calculation is 0%.

Based on the assumptions stated above, the fair value of all options granted to the former President & CEO under the stock option plan is NIS 38.6 million (NIS 44.6 million, including payroll tax at a rate of 15.5% as it stood at that time).
The options were allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the former President & CEO from exercise of these options shall be taxed at the marginal tax rate applicable to the former President & CEO upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the former President & CEO from exercise of the options under the new stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the Bank's former President & CEO, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

3. Stock option plan for VPs

On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of options by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). The Board of Directors further decided, after obtaining approval of the Audit Committee, that allotment of the options is contingent on the Supervisor of Banks allowing the Bank to buy back at least 1,400,000 shares of NIS 0.1 par value oot of the Bank's issued share capital. For details of 2,500,000 Bank shares bought back by the Bank in accordance with approval of the Supervisor of Banks, see Note 13.D. above.

Each offeree pursuant to the stock option plan consented, by their own choice, that should the Bank allot to them stock options pursuant to the plan, they would be excluded from the framework bonus plan for Bank officers for each of the years 2009 through 2012, and would not be included in a bonus plan for Bank officers for 2013, should such plan be approved by the Bank.

Note 16.A. – Share-based Payment Transactions - continued

In conjunction with the stock option plan, the Bank allotted on June 23, 2009 to the trustee, on behalf of the offerees, 5,850,000 options which would not be listed for trading on the stock exchange. The options may each be exercised for one Bank ordinary share of NIS 0.1 par value for no consideration, subject to terms and conditions of the plan. Allotment of the maximum number of exercise shares is only theoretical. Upon the exercise date of the options, offerees would not be allotted the full number of exercised shares arising from the options which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned options.

The exercise price for each option allotted to offerees pursuant to the plan is NIS 21.18, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 - which was also the basis for the exercise price of options allotted to the Bank President as mentioned above. Note that the exercise price is higher than the closing price of Bank shares on the stock exchange on March 26, 2009 - the most recent trading day prior to the date on which the Board of Directors approved the stock option plan.

The options allotted to the trustee for each offeree, in accordance with the plan, were allotted in 5 equal lots. Each lot shall vest upon vesting dates on each anniversary of the allotment date, from the first anniversary (for the first lot) to the fifth anniversary (for the fifth lot).

In accordance with the original plan, each offeree would be eligible to exercise options included in the exercise lot which vested on any date, provided that the net operating profit return on the Bank's average shareholders' equity for the reported year preceding the vesting date should be 10% or higher. Should the aforementioned rate of return for the reported year prior to the vesting date be lower than 10%, the offeree may not exercise at any time the lot vested on thevesting date. The Bank’s Board of Directors would be qualified, at its own discretion and subsequent to approval by the Audit Committee, to exclude the impact of non-recurring or extraordinary events from calculation of the annual rate of return for any reported period.

On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility rate for each of the stock option plans for VPs for lots vesting in 2011, 2012, 2013 and 2014, where the vesting eligibility would be determined based on the annual rate of return in reported fiscal 2010, 2011, 2012 and 2013, respectively. Accordingly, it was resolved that the vesting eligibility rate for each of the stock option Plans for VPs would be reduced from 10% to 9%.

Note 16.A. – Share-based Payment Transactions - continued

The fair value (theoretical benefit value) of a single option in any lot of options was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting term. The following assumptions were used for calculation of fair value:

- The exercise price for each option, for the purpose of this calculation, is NIS 21.18.
- The expected term to exercise of each lot was assumed to be the average of the vesting period of each lot (from one year for lot 1, to five years for lot 5) and the plan term (7 years).
- Standard deviation for each lot was calculated using historical daily returns of the share price on the stock exchange over a period equal to the expected term of each lot.
- The risk-free interest rate was calculated based on quoted yield to maturity information for CPI-linked government debentures traded on the stock exchange, as published on March 26, 2009.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is 0%.
- For calculation of fair value, it was assumed that net operating profit return on the Bank's average shareholders' equity in each plan year would be 10% or higher.
- Calculation of the fair value does not account for the fact that the options would not be listed for trading on the stock exchange.

The number of options which the offerees may exercise shall be reviewed upon each reporting date, based on information available at that time. The results of this review may reduce the expense charged in the Bank's financial statements with respect to options over plan years, but may not change the fair value of each option included in each lot.

On November 9, 2009, the Bank's Board of Directors, after obtaining approval by the Bank's Audit Committee, resolved to approve allotment of a further 1,104,999 options, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs. The exercise price for each option allotted to the two additional offerees pursuant to the plan is NIS 29.85, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Note 16.A. – Share-based Payment Transactions - continued

On April 30, 2012, the Bank’s Board of Directors resolved, after approval by the Bank’s Audit Committee, to approve a plan for award of 238,333 options to an officer who was hired by the Bank in March 2012. The option plan is based on the principles of the stock option plan for VPs at the Bank, as described above.

Options would be awarded in 2 lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the award date, subject to net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option pursuant to the plan is NIS 33.79, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 29, 2012, the most recent trading day prior to the date of plan approval by the Board of Directors.

The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the options in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 1.7 million (NIS 1.9 million including Payroll Tax).
Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offeree would be eligible to exercise based on management estimate of the range of annual rates of return, as stated above, as well as based on Bank management’s assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

Note 16.A. – Share-based Payment Transactions - continued

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Total
Allotment approved March 29, 2009						
Number of options (in thousands)	910	910	910	650	650	(1)4,030
Annualized standard deviation	32.75%	32.04%	30.95%	30.11%	30.27%	
Exercise price (in NIS)	21.18	21.18	21.18	21.18	21.18	
Risk-free interest rate	0.65%	0.77%	0.92%	1.09%	1.28%	
Term to exercise (in years)	4.1	4.6	5.1	5.6	6.1	
Fair value per single option	4.78	5.02	5.19	5.39	5.77	
Total fair value per lot (NIS in thousands)	4,346	4,569	4,724	3,504	3,751	20,894
Allotment approved November 9, 2009						
Number of options (in thousands)	65	260	260	260	260	1,105
Annualized standard deviation	35%	34%	33%	33%	32%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.46%	0.65%	0.83%	1.02%	1.20%	
Term to exercise (in years)	3.6	4.1	4.6	5.1	5.6	
Fair value per single option	8.00	8.39	8.73	9.16	9.44	
Total fair value per lot (NIS in thousands)	520	2,181	2,270	2,381	2,455	9,807
Allotment approved April 30, 2012						
Number of options (in thousands)	108	130	-	-	-	238
Annualized standard deviation	30.23%	32.27%	-	-	-	
Exercise price (in NIS)	33.79	33.79	-	-	-	
Risk-free interest rate	0.2%	0.3%	-	-	-	
Term to exercise (in years)	2.7	3.2	-	-	-	
Fair value per single option	6.63	7.75	-	-	-	
Total fair value per lot (NIS in thousands)	718	1,008	-	-	-	1,726

(1) After expiration of 1,820 thousand options with respect to four VPs who resigned from the Bank.

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2014		2013		2012	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	1,346,666	26.83	2,851,666	25.46	4,804,999	23.65
Granted during the year(1)	-	-	-	-	238,333	33.85
Forfeited during the year	-	-	-	-	520,000	22.07
Exercised during the year(2)	801,666	26.96	1,505,000	23.55	1,671,666	22.58
Outstanding at year end	545,000	26.48	1,346,666	26.83	2,851,666	25.46

(1) The weighted average fair value of stock options granted in 2012 was NIS 7.24.

(2) The weighted average share price upon exercise of options into shares during 2014 was NIS 44.51 (2013 – NIS 39.37; 2012 - NIS 34.37).

Stock options in circulation at year end by exercise price range:

Exercise price range	December 31, 2014			December 31, 2013			December 31, 2012		
(in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	325,000	90,000	130,000	715,000	393,333	238,333	1,790,000	823,333	238,333
Weighted average exercise price (in NIS)	22.14	30.64	34.44	22.16	30.67	34.47	22.07	30.42	33.85
Weighted average remaining contractual term (in years)	1.48	1.48	1.48	2.48	2.48	2.48	3.48	3.48	3.48
Of which vested:									
Number of stock options	325,000	90,000	130,000	65,000	133,333	108,333	490,000	303,333	-
Weighted average exercise price (in NIS)	22.14	30.64	34.44	22.16	30.67	34.47	22.07	30.42	-

Note 16.A. – Share-based Payment Transactions - continued

4. Stock option plan for employees

A. On July 19, 2005, after approval by the Bank's Audit Committee and Board of Directors, stock options were granted to Executive Management, division and sector managers, and department and branch managers of the Bank and its subsidiaries ("the offerees") in conjunction with a compensation plan aimed at encouraging them to contribute to business development of the Bank and its subsidiaries, and to align interests of the offerees with that of the Bank and its subsidiaries. In accordance with the plan, the Bank allotted up to 12,000,000 options, which may be exercised for shares, NIS 0.1 par value each. As of December 31, 2009, a total of 11,379,103 options have been allotted to 338 offerees.

On March 2, 2009, the Bank's Board of Directors, having received approval from the Bank's Audit Committee dated March 2, 2009, resolved to extend the exercise period of all options granted to employees and officers of the Bank and its subsidiaries in accordance with this stock option plan, not yet exercised into Bank shares, by a further 2 years. The extension of the exercise period for these options is only a benefit to offerees who own the options under the plan.

The remaining options expired on February 18, 2013. The theoretical benefit value of options thus allotted was charged to profit & loss through the end of 2011. Upon exercise of vested options, the relevant portion of the capital reserve was reclassified to share premium.

Details of the number of stock options and their exercise price are as follows:

		2014		2013		2012
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	-	-	-	-	393,922	28.24
Granted during the year	-	-	-	-	-	-
Forfeited during the year	-	-	-	-	-	-
Exercised during the year [(1)]	-	-	-	-	393,922	28.37
Outstanding at year end	-	-	-	-	-	-

(1) The weighted average share price upon option exercise for shares exercised in 2012 was NIS 34.07.

Note 16.A. – Share-based Payment Transactions - continued

B. On May 19, 2008, the Bank's Board of Directors resolved, after obtaining approval of the Bank's Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for Bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries – as specified in the option plan and in the outline published on June 8, 2008 ("the outline"). No stock options would be granted, pursuant to the plan, to members of the Bank's Board of Directors, including the Chairman of the Board, nor to the Bank President.

The option plan is for a term of 5 years and 90 days, starting on the date of option allotment in accordance with the plan. In conjunction with approval of the plan, the Board of Directors resolved that the number of options to be used as a pool for allotment of options pursuant to the plan, would include 32,500,000 options, registered in the owner's name, not listed for trading on the Tel Aviv Stock Exchange, which would be granted at no cost to offerees, and which may be exercised for up to 32,500,000 Bank ordinary shares, NIS 0.1 par value each, subject to adjustments as stated in the plan, and subject to achieving the eligibility conditions it specified.

The options allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. The vesting period for each such lot would be at the end of each of the 1st, 2nd, 3rd, 4th and 5th anniversaries of the allotment date of options pursuant to the plan, respectively. The number of exercised shares, as stated above, is the maximum number of shares arising from exercise of all options which may be allotted pursuant to the plan. However, the number of options which the offerees may actually exercise, pursuant to terms of the plan, will be based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 18% (under the original plan), based on the exercise eligibility formula, as stated in the option plan.

The personal eligibility rate for each offeree included in the group of branch-, department- and affiliate managers (as defined in the plan) to exercise the options granted to them in accordance with the plan will be determined, in addition to the aforementioned, also by the quality rating assigned to them, as stated in the option plan.

Furthermore, allotment of the full number of exercised shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of exercised shares arising from the options which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned options, as stated in the option plan.

The exercise price for each of the options allotted pursuant to the plan was determined based on the closing price of the Bank's ordinary shares on the stock exchange on July 7, 2008 – the final trading day preceding the allotment date of options to the offeree. The exercise price is NIS 25.15 plus linkage differentials to the Consumer Price Index starting on the allotment date, adjusted for dividends to be distributed by the Bank.

Note 16.A. – Share-based Payment Transactions - continued

On July 8, 2008, 28,625,300 options were allotted, in accordance with the plan, at no cost to 313 offerees who are Bank officers, branch-, department- and affiliate managers, as well as other employees of the Bank and its subsidiaries, as stated in the option plan.

The options pursuant to the plan were allotted in accordance with terms of the work income track, via a trustee, pursuant to provisions of Section 102 of the Income Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued on its basis.

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank's Audit Committee dated November 23, 2008, to extend the exercise periods of all options allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.

Accordingly, the exercise period for each lot of the options allotted or to be allotted pursuant to the option plan, including all options allotted on July 8, 2008, would be extended by 24 months, to end after 7 years and 90 days from the date of allotment, rather than after 5 years and 90 days from the date of allotment, as stated in the original plan.

For recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as stated above, management has estimated a range of annual rates of return (though not linear) for each plan year (2008-2012) up to an 18% annual rate of return in 2012. Using this range, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan has been estimated, as stated in the framework.

On November 24, 2008, the Bank's Board of Directors approved an updated strategic plan, whereby the Bank's objective is to achieve an annual rate of return of 18% in 2013, rather than in 2012, as stated in the strategic plan prior to its update. Accordingly, management estimate with regard to the framework of annual rates of return has been updated for the purpose of recording this expense in the Bank's financial statements.

On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility formula for each of the stock option plans for VPs for lots vesting in 2011, 2012 and 2013, where the vesting eligibility would be determined based on annual rate of return in reported fiscal 2010, 2011 and 2012, respectively.

Note 16.A. – Share-based Payment Transactions - continued

In accordance with the updated formula, the offerees would be eligible to exercise in full the options in each lot, provided that the average net profit rate of return on equity would be 15%, compared to 18% in the original formula, all as stated in the update to the stock option plan. For recording the expense on the Bank's financial statements, Bank management has estimated the trend of annual rates of return (though not linear) for each of the years 2010, 2011 and 2012. Using this trend, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan were reestimated for lots vesting in 2011 through 2013. The update to the vesting eligibility formula, as well as management estimates with regard to the trend of annual rates of return, are arithmetical results of the Board of Directors' decision with regard to the capital adequacy target. Pursuant to this reestimation, it is expected that the number of options exercisable by each offeree, as stated above, would be similar to the number of options exercisable by each offeree based on previous estimates by management, and that the change would not materially impact the Bank's financial statements.

The theoretical benefit value of the options currently allotted, as stated, calculated in accordance with accounting principles in IFRS 2, including the adjustment of option value with respect to the change in option terms and the impact of change in number of options expected to vest, as of December 31, 2012 amounted to NIS 154 million (NIS 179 million including payroll tax); Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management's estimate of the range of annual rates of return, as stated, as well as based on Bank management's assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. Adjustment of the benefit value with respect to the change in option terms is the difference between the fair value of the options, under their original terms, upon the date of change in those terms, and their fair value under the new terms upon the same date. The theoretical benefit value is recorded on Bank accounts starting on the grant date and over a 5-year period. Management estimates with regard to the range of annual rates of return and churn rates are reviewed and updated on an on-going basis, and the extent of total expenditures recorded in the financial statements is updated accordingly.

The theoretical benefit value of the options was determined using the Black and Scholes model. Standard deviation was separately calculated for each lot, based on daily share prices in a period equal to the expected life of each lot. The option term in the model was determined based on the average time between the vesting period and the option expiration date (Simplified Approach). The rate of risk-free interest is determined based on gross yield to maturity for CPI-linked government debentures bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.

Note 16.A. – Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on July 8, 2008, as of the grant date and as of the date of modification of terms:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
As of July 8, 2008 – the grant date					
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.10	3.60	4.10	4.60	5.10
Fair value per single option	5.25	5.79	6.13	6.45	6.95
As of November 24, 2008 – for the original exercise period (exercise price unchanged)					
Annualized standard deviation	29.84%	29.22%	28.76%	28.35%	27.43%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.08%	4.11%	4.13%	4.15%	4.16%
Term to exercise (in years)	2.75	3.25	3.75	4.25	4.75
Fair value per single option	1.17	1.43	1.69	1.94	2.12
As of November 24, 2008 – for the updated exercise period (exercise price unchanged)					
Annualized standard deviation	28.76%	28.35%	27.43%	26.77%	27.18%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.13%	4.15%	4.16%	4.18%	4.19%
Term to exercise (in years)	3.75	4.25	4.75	5.25	5.75
Fair value per single option	1.69	1.94	2.12	2.32	2.66
Value of change per single option	0.52	0.51	0.43	0.38	0.54
Cumulative value per single option	5.77	6.30	6.56	6.83	7.49

On June 29, 2009, the Bank's Board of Directors approved allotment of a further 2,263,700 options, under identical terms and conditions except for the exercise price, to two officers and 37 additional employees. The exercise price for each option allotted to offerees pursuant to the plan is NIS 23.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on June 28, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as statedh above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 12 million including payroll tax).

Note 16.A. – Share-based Payment Transactions - continued

On November 9, 2009, the Bank's Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 1,085,432 options, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The exercise price for each option allotted to the four additional offerees pursuant to the plan is NIS 29.85, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as stated above, the theoretical benefit value of the options amounted to NIS 6 million (NIS 7 million including payroll tax).

On October 26, 2010, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 1,652,500 options, under identical terms and conditions with the exception of the exercise price, to 41 employees, including one officer of the Bank. Options would be allotted in 3 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1), second anniversary (lot 2) and third anniversary (lot 3) of the allotment date, subject to net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 35.40, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank.

The exercise price was based on the closing price of Bank shares on the stock exchange on October 25, 2010, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as stated above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 13 million including payroll tax).

On October 3, 2011, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 701,300 options, under identical terms and conditions with the exception of the exercise price, to 31 employees, including one officer of the Bank. Options would be allotted in 2 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the allotment date, subject to net profit rate of return on average equity for each year preceding each vesting date, as set forth above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 31.62, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank.

Note 16.A. – Share-based Payment Transactions - continued

The exercise price was based on the closing price of Bank shares on the stock exchange on October 2, 2011, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model.

The theoretical benefit value of the options in this allotment, calculated in accordance with the accounting rules of Accounting Standard no. 24, amounts to NIS 4.4 million (NIS 5 million including Payroll Tax).

The options were allotted to employees on November 17, 2011.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 28, 2009, on November 9, 2009 and on October 3, 2011:

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved on June 29, 2009					
Number of options (in thousands)	566	566	566	566	2,264
Annualized standard deviation	34.27%	33.29%	32.65%	31.55%	
Exercise price (in NIS)	23.60	23.60	23.60	23.60	
Risk-free interest rate	0.91%	1.20%	1.50%	1.71%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	6.40	8.75	7.15	7.45	
Total fair value per lot, NIS in thousands	3,622	3,820	4,046	4,194	15,682
Allotment approved on November 9, 2009					
Number of options (in thousands)	248	279	279	279	1,085
Annualized standard deviation	34.88%	33.92%	33.15%	32.45%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.49%	0.68%	0.87%	1.05%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	8.05	8.43	8.82	9.21	
Total fair value per lot, NIS in thousands	2,000	2,352	2,461	2,569	9,382
Allotment approved on October 26, 2010					
Number of options (in thousands)		551	551	551	1,653
Annualized standard deviation		36.73%	35.07%	33.88%	
Exercise price (in NIS)		35.40	35.40	35.40	
Risk-free interest rate		0.22%	0.38%	0.53%	
Term to exercise (in years)		3.2	3.7	4.2	
Fair value per single option		9.23	9.55	9.92	
Total fair value per lot (NIS in thousands)		5,084	5,260	5,464	15,808
Allotment approved on October 3, 2011					
Number of options (in thousands)			351	351	702
Annualized standard deviation			31.93%	36.90%	
Exercise price (in NIS)			31.62	31.62	
Risk-free interest rate			1.07%	1.13%	
Term to exercise (in years)			2.71	3.21	
Fair value per single option			6.93	8.63	
Total fair value per lot (NIS in thousands)			1,700	2,783	4,483

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2014		2013		2012	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	2,163,977	30.11	9,260,886	28.22	15,841,665	27.24
Granted during the year	-	-	-	-	-	-
Forfeited during the year	-	-	2,615,397	27.97	1,033,267	26.94
Exercised during the year (1)	614,237	30.42	4,481,512	27.83	5,547,512	26.68
Outstanding at year end (2)	1,549,740	29.93	2,163,977	30.11	9,260,886	28.22

(1) The weighted average share price upon exercise of options into shares during 2014 was NIS 45.47 (2013 – NIS 40.07; 2012 - NIS 36.26).

(2) Stock options outstanding at year end by exercise price range:

	December 31, 2014			December 31, 2013			December 31, 2012		
Range of exercise prices (in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	166,559	988,580	394,601	200,469	1,363,410	600,098	794,422	6,730,713	1,735,751
Weighted average exercise price (in NIS)	24.39	28.19	36.64	24.41	35.24	36.67	24.28	26.99	34.79
Weighted average remaining contractual term (in years)	0.98	0.87	1.18	1.98	2.44	2.18	2.98	2.80	3.17
Of which vested:									
Number of stock options	166,559	988,580	394,601	200,469	1,363,410	600,098	255,522	1,998.733	900,603
Weighted average exercise price (in NIS)	24.39	28.19	36.64	24.41	35.24	36.67	24.28	27.09	34.99

C. On April 29, 2013, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees who are employees of the Bank and its subsidiaries but who are not officers of the Bank. The option plan is based on the principles of the stock option plan for employees at the Bank.

Note 16.A. – Share-based Payment Transactions - continued

The stock option plan is based on the format and principles of the employee stock option plans approved by the Bank in 2008 through 2011, whereby the Bank allocated options on July 8, 2008, on September 24, 2009, on December 5, 2010 and on November 17, 2011. Terms of the aforementioned options were listed in detail in outlines made public by the Bank, as amended. The stock option plan pursuant to this outline is intended for Bank employees other than officers and to employees of Bank subsidiaries. For further information, see Note 16.A.4.A-B. The number of options which offerees may actually exercise, pursuant to plan terms and conditions, is derived from the average rate of net operating profit return on equity for the Bank, based on the formula for exercise eligibility - all as described and similar to plans approved in 2008 through 2011.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date. Subject to the average rate of net operating profit return on equity for the Bank, as described above. The exercise price for each option allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model.

The theoretical benefit value of the options in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 17 million (NIS 20 million including Payroll Tax).

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as statred above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. The theoretical benefit value of the lot is recognized by the Bank over the vesting period.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

	Lot 1	Total
Allotment approved April 29, 2013		
Number of options	5,901,340	
Annualized standard deviation	31.36%	
Exercise price (in NIS)	36.6	
Risk-free interest rate	-0.18%	
Term to exercise (in years)	1.71	
Fair value per single option	5.894	
Total fair value per grant (NIS in thousands)	34,899	34,899

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2014		2013	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	5,860,240	36.71	-	-
Granted during the year (1)	-	-	5,901,340	36.71
Forfeited during the year	2,828,487	36.68	41,100	36.71
Exercised during the year (2)	678,363	36.71	-	-
Outstanding at year end (3)	2,353,390	36.67	5,860,240	36.71

(1) The weighted average fair value of stock options granted in 2013, as of the measurement date, was NIS 5.54.
(2) The weighted average share price upon option exercise for shares exercised in 2014 was NIS 44.41.
(3) Stock options outstanding at year end by exercise price range:

Exercise price range	December 31, 2014			December 31, 2013		
(in NIS)	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	-	-	2,353,390	-	-	5,860,240
Weighted average exercise price (in NIS)	-	-	36.67	-	-	36.71
Weighted average remaining contractual term (in years)	-	-	0.72	-	-	1.72
Of which vested:						
Number of stock options	-	-	2,353,390	-	-	-
Weighted average exercise price (in NIS)	-	-	36.67	-	-	-

D. On June 10, 2014, the General Meeting of Bank Shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (for details see section C. above).

On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as stated in a report issued by the Bank on June 19, 2014, reference 2014-01-091176 (hereifter: "the outline report").

Note 16.A. – Share-based Payment Transactions - continued

As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

- Option plan A - up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B - up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C - up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D - up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E - up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms and conditions of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is but theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms and conditions of each plan - but only the number of shares reflecting the monetary benefit inherent in the options, based, *inter alia*, on the closing price cap of NIS 80 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that the number of exercise shares for each plan is subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

The options to be issued in the name of the trustee for each officer, pursuant to option plans A or B, would be divided into three annual lots, one for each bonus year. The total number of options in each annual lot of options A, awarded to all officers who are not gatekeepers, is: 728,451 options for 2014; 689,523 options for 2015; and 665,223 options for 2016.

The total number of options in each annual lot of options B, awarded to all officers who are gatekeepers, is: 314,100 options for 2014; 284,136 options for 2015; and 274,830 options for 2016.

Note 16.A. – Share-based Payment Transactions - continued

The options to be issued in the name of the trustee for each officer, pursuant to option plans C, D or E, would be divided into three equal annual lots, one for each bonus year. Each of the annual lots would vest in three equal portions as from April 1 of 2016-2020, as stated in the outline report.

Each of the annual lots for options D and E would vest as follows:

- The adjusted annual lot for 2014 may be exercised from the first anniversary of the option issuance date through 4.5 years thereinafter.
- The adjusted annual lot for 2015 may be exercised from the second anniversary of the option issuance date through 4.5 years thereinafter.
- The adjusted annual lot for 2016 may be exercised from the third anniversary of the option issuance date through 4.5 years thereinafter.

Threshold conditions and eligibility conditions for options

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

- Return on equity for the bonus year shall be at least 9%;
- Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").

  The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

  Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark.

  Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

  The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

Note 16.A. – Share-based Payment Transactions - continued

The exercise price for each option to be issued pursuant to any of the plans is NIS 46.21 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the outline report were taken into account.

Based on the aforementioned assumptions, as listed in the outline report, the average fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options A: options included in the first lot - NIS 7.69; options included in the second lot - NIS 8.13; options included in the third lot - NIS 8.43.
- Options B: options included in the first lot - NIS 7.73; options included in the second lot - NIS 8.16; options included in the third lot - NIS 8.44.
- Options C: options included in the first lot - NIS 7.64; options included in the second lot - NIS 8.06; options included in the third lot - NIS 8.35.
- Options D and E: options included in the first lot - NIS 8.42; options included in the second lot - NIS 8.17; options included in the third lot - NIS 7.64.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When recognizing the theoretical benefit value on Bank accounts, the estimated expected churn rate for plan offerees would be taken into account.

Note 16.A. – Share-based Payment Transactions - continued

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are specified in an Immediate Report dated June 19, 2014, reference 2014-01-091176. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 19, 2014:

	Lot 1	Lot 2	Lot 3	Total
Option plan A				
Number of options (in thousands)	728	690	665	2,083
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.45%)-0.08%	(0.87%)-0.64%	(0.70%)-1.08%	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.70	8.12	8.43	
Total fair value per lot, NIS in thousands	5,605	5,605	5,605	16,815

Note 16.A. – Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 19, 2014 (continued):

	Lot 1	Lot 2	Lot 3	Total
Option plan B				
Number of options (in thousands)	314	284	275	873
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.45%)-0.08%	(0.87%)-0.64%	(0.70%)-1.08%	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.73	8.17	8.43	
Total fair value per lot, NIS in thousands	2,428	2,319	2,319	7,066
Option plan C				
Number of options (in thousands)	917	896	896	2,709
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.45%)-0.08%	(0.87%)-0.64%	(0.70%)-1.08%	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.64	8.06	8.35	
Total fair value per lot (NIS in thousands)	7,006	7,222	7,482	21,710
Option plan D				
Number of options (in thousands)	394	394	394	1,182
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.16%)-(0.12%)	(0.87%)-0.26%	(0.70%)-0.61%	
Term to expiration (in years)	4	5	6	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	3,317	3,219	3,010	9,546
Option plan E				
Number of options (in thousands)	1,682	1,682	1,682	5,046
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.16%)-(0.12%)	(0.87%)-0.26%	(0.70%)-0.61%	
Term to expiration (in years)	4	5	6	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	14,162	13,742	12,850	40,754

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price for all plans are as follows:

	2014	
	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	-	-
Granted during the year(1)	11,893,823	46.21
Forfeited during the year	-	-
Exercised during the year	-	-
Outstanding at year end(2)	11,893,823	46.26

(1) The weighted average fair value of stock options granted in 2014, as of the measurement date, was NIS 46.21.

(2) Stock options outstanding at year end by exercise price range:

Exercise price range			December 31, 2014
(in NIS)	26-32	33-39	40-50
Number of stock options	-	-	11,893,823
Weighted average exercise price (in NIS)	-	-	46.26
Weighted average remaining contractual term (in years)	-	-	3.88
Of which vested:			
Number of stock options	-	-	11,893,823
Weighted average exercise price (in NIS)	-	-	46.26

Note 17 - Assets and Liabilities by Linkage Basis - Consolidated
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 repurchase agreements	49	58	-	-	-	-	107
Loans to the public, net	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	1,701	287	31	1	20	41	2,081
Total assets	119,977	54,521	15,931	4,219	1,965	1,951	198,564
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	4,448	1,137	187	12	44	244	6,072
Total liabilities	109,086	38,936	30,555	5,455	2,788	244	187,064
Difference	10,891	15,585	(14,624)	(1,236)	(823)	1,707	11,500
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	1,780	8,327	(89)	(89)	(132)	1,703	11,500
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.

Note 17 - Assets and Liabilities by Linkage Basis - Consolidated - continued

As of December 31, 2013

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	23,064	114	2,346	88	448	-	26,060
Securities	4,015	138	1,972	747	30	98	7,000
Securities loaned or sold in repurchase agreements	13	57	-	-	-	-	70
Loans to the public, net	73,715	52,740	8,352	2,317	1,441	-	138,565
Loans to Governments	-	-	122	183	-	-	305
Investments in investees	35	-	-	-	-	25	60
Buildings and equipment	-	-	-	-	-	1,656	1,656
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,726	552	219	78	31	-	3,606
Other assets	1,842	280	26	1	12	43	2,204
Total assets	105,410	53,881	13,037	3,414	1,962	1,909	179,613
Liabilities							
Deposits from the public	92,888	21,439	20,064	4,221	2,632	-	141,244
Deposits from banks	434	439	1,050	102	16	-	2,041
Deposits from the Government	11	22	29	-	-	-	62
Debentures and subordinated notes	2,146	14,297	-	-	-	-	16,443
Liabilities with respect to derivatives	2,443	294	494	291	16	-	3,538
Other liabilities	4,523	1,022	43	1	35	326	5,950
Total liabilities	102,445	37,513	21,680	4,615	2,699	326	169,278
Difference	2,965	16,368	(8,643)	(1,201)	(737)	1,583	10,335
Impact of hedging derivatives:							
Derivatives (other than options)	1,083	(1,083)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,097)	(8,042)	7,989	539	611	-	-
Net in-the-money options (in terms of underlying asset)	(343)	-	(11)	380	(35)	9	-
Net out-of-the-money options (in terms of underlying asset)	(756)	-	474	271	20	(9)	-
Total	1,852	7,243	(191)	(11)	(141)	1,583	10,335
Net in-the-money options (capitalized par value)	(725)	-	948	(160)	(63)	-	-
Net out-of-the-money options (capitalized par value)	6	-	77	(233)	150	-	-

(1) Includes linked to foreign currency.

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

Note 17 - Assets and Liabilities by Linkage Basis - The Bank - continued

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	18,303	20	3,508	496	98	-	22,425
Securities	8,212	489	1,780	1,468	-	104	12,053
Securities loaned or sold in repurchase agreements	49	58	-	-	-	-	107
Loans to the public, net	76,008	52,391	8,272	1,972	1,329	-	139,972
Loans to Governments	-	-	152	155	-	-	307
Investments in investees[3]	35	531	-	-	-	1,950	2,516
Buildings and equipment	-	-	-	-	-	1,516	1,516
Assets with respect to derivatives	3,092	460	1,926	46	76	-	5,600
Other assets	1,517	287	30	1	14	41	1,890
Total assets	107,216	54,236	15,668	4,138	1,517	3,611	186,386
Liabilities							
Deposits from the public	87,120	31,343	26,117	4,775	2,479	-	151,834
Deposits from banks	4,681	2,124	1,071	327	130	-	8,333
Deposits from the Government	-	15	31	-	-	-	46
Securities loaned or sold in conjunction with repurchase agreements	223	-	-	-	-	-	223
Debentures and subordinated notes	-	3,777	-	-	-	-	3,777
Liabilities with respect to derivatives	3,094	200	2,911	278	13	-	6,496
Other liabilities	3,087	1,133	184	12	30	244	4,690
Total liabilities	98,205	38,592	30,314	5,392	2,652	244	175,399
Difference	9,011	15,644	(14,646)	(1,254)	(1,135)	3,367	10,987
Impact of hedging derivatives:							
Derivatives (other than options)	3,422	(3,422)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(11,334)	(3,836)	13,936	481	753	-	-
Net in-the-money options (in terms of underlying asset)	(745)	-	187	524	32	2	-
Net out-of-the-money options (in terms of underlying asset)	(453)	-	302	158	(1)	(6)	-
Total	(99)	8,386	(221)	(91)	(351)	3,363	10,987
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) Includes investments in overseas subsidiaries totaling NIS 347 million.

Note 17 - Assets and Liabilities by Linkage Basis - The Bank - continued
As of December 31, 2013

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	18,871	42	1,865	234	109	-	21,121
Securities	2,112	118	2,003	746	-	67	5,046
Securities loaned or sold in repurchase agreements	13	57	-	-	-	-	70
Loans to the public, net	67,637	52,160	8,157	2,270	1,383	-	131,607
Loans to Governments	-	-	122	183	-	-	305
Investments in investees[3]	35	509	-	-	-	1,822	2,366
Buildings and equipment	-	-	-	-	-	1,498	1,498
Assets with respect to derivatives	2,722	552	219	78	31	-	3,602
Other assets	1,706	280	26	1	8	43	2,064
Total assets	93,096	53,718	12,392	3,512	1,531	3,430	167,679
Liabilities							
Deposits from the public	82,797	29,210	19,311	4,183	2,255	-	137,756
Deposits from banks	3,342	2,905	1,356	249	63	-	7,915
Deposits from the Government	-	22	29	-	-	-	51
Debentures and subordinated notes	-	3,985	-	-	-	-	3,985
Liabilities with respect to derivatives	2,442	294	494	291	16	-	3,537
Other liabilities	3,136	1,062	35	1	23	326	4,583
Total liabilities	91,717	37,478	21,225	4,724	2,357	326	157,827
Difference	1,379	16,240	(8,833)	(1,212)	(826)	3,104	9,852
Impact of hedging derivatives:							
Derivatives (other than options)	1,083	(1,083)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,099)	(8,042)	8,104	548	489	-	-
Net in-the-money options (in terms of underlying asset)	(343)	-	(11)	380	(35)	9	-
Net out-of-the-money options (in terms of underlying asset)	(756)	-	474	271	20	(9)	-
Total	264	7,115	(266)	(13)	(352)	3,104	9,852
Net in-the-money options (capitalized par value)	(725)	-	948	(160)	(63)	-	-
Net out-of-the-money options (capitalized par value)	6	-	77	(233)	150	-	-

(1) Includes linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Includes investments in overseas subsidiaries totaling NIS 313 million.

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis[1] - consolidated

As of December 31, 2014

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Israeli currency (including linked to foreign currency)						
Assets[3]	36,978	6,210	21,132	16,676	13,214	12,317
Liabilities	79,512	14,622	16,971	9,037	8,119	3,536
Difference	(42,534)	(8,412)	4,161	7,639	5,095	8,781
Future transactions	(11,827)	(11,972)	9,409	666	32	(210)
Stock Options	313	(93)	(202)	47	-	-
Difference after effect of derivatives	(54,048)	(20,477)	13,368	8,352	5,127	8,571
Foreign currency						
Assets	8,759	1,179	2,863	2,168	789	575
Liabilities	17,946	8,750	10,711	732	111	74
Difference	(9,187)	(7,571)	(7,848)	1,436	678	501
Of which: Difference in USD	(5,669)	(4,274)	(6,220)	143	296	307
Of which: Difference with respect to foreign operations	(329)	(799)	343	871	265	179
Future transactions	11,827	11,972	(9,409)	(666)	(32)	210
Stock Options	(313)	93	202	(47)	-	-
Difference after effect of derivatives	2,327	4,494	(17,055)	723	646	711
Total						
Assets	45,737	7,389	23,995	18,844	14,003	12,892
Liabilities	97,458	23,372	27,682	9,769	8,230	3,610
Difference	(51,721)	(15,983)	(3,687)	9,075	5,773	9,282
Of which: Loans to the public	13,111	6,132	19,915	16,036	13,152	10,572
Of which: Deposits from the public	89,878	21,559	22,293	5,784	3,684	1,027

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets totaling NIS 364 million which are past due.

(3) Includes NIS 6,413 million of loans at debitory account terms and NIS 286 million exceeding limits in debitory account facilities.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

						Balance sheet balance		
Expected contractual future cash flows - continued								Forecasted
4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	rate of return[4]
8,278	37,746	39,427	12,062	204,040	[2]1,196	178,157	3.34%
6,137	10,906	4,754	219	153,813	83	148,441	2.37%
2,141	26,840	34,673	11,843	50,227	1,113	29,716	
177	(1,294)	(14)	-	(15,033)	-	(15,033)	
-	-	-	-	65	-	65	
2,318	25,546	34,659	11,843	35,259	1,113	14,748	
605	1,939	506	106	19,489	[2]27	18,456	3.53%
191	493	11	-	39,019	1	38,379	1.28%
414	1,446	495	106	(19,530)	26	(19,923)	
224	499	49	-	(14,645)	-	(14,310)	
253	235	307	-	1,325	-	1,010	
(177)	1,294	14	-	15,033	-	15,033	
-	-	-	-	(65)	-	(65)	
237	2,740	509	106	(4,562)	26	(4,955)	
8,883	39,685	39,933	12,168	223,529	1,223	196,613	3.36%
6,328	11,399	4,765	219	192,832	84	186,820	2.34%
2,555	28,286	35,168	11,949	30,697	1,139	9,793	
8,446	34,457	39,724	11,805	173,350	995	147,569	3.42%
3,795	4,818	3,719	-	156,557	1	152,379	2.13%

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis[1] - the Bank - continued

As of December 31, 2014

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Israeli currency (including linked to foreign currency)						
Assets[3]	32,245	5,759	18,670	15,420	11,815	11,516
Liabilities	66,459	13,114	18,481	9,983	8,057	3,544
Difference	(34,214)	(7,355)	189	5,437	3,758	7,972
Future transactions	(11,827)	(11,972)	9,409	666	32	(210)
Stock Options	313	(93)	(202)	47	-	-
Difference after effect of derivatives	(45,728)	(19,420)	9,396	6,150	3,790	7,762
Foreign currency						
Assets	7,998	1,070	2,848	2,168	789	575
Liabilities	16,617	9,319	11,014	732	111	74
Difference	(8,619)	(8,249)	(8,166)	1,436	678	501
Of which: Difference in USD	(5,311)	(4,763)	(6,513)	143	296	307
Of which: Difference with respect t o foreign operations	(395)	(908)	107	871	265	179
Future transactions	11,827	11,972	(9,409)	(666)	(32)	210
Stock Options	(313)	93	202	(47)	-	-
Difference after effect of derivatives	2,895	3,816	(17,373)	723	646	711
Total						
Assets	40,243	6,829	21,518	17,588	12,604	12,091
Liabilities	83,076	22,433	29,495	10,715	8,168	3,618
Difference	(42,833)	(15,604)	(7,977)	6,873	4,436	8,473
Of which: Loans to the public	11,351	5,703	18,124	14,816	12,219	9,890
Of which: Deposits from the public	78,417	20,187	22,391	8,799	7,042	2,951

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets totaling NIS 304 million which are past due.

(3) Includes NIS 5,484 million of loans at debitory account terms and NIS 217 million exceeding limits in debitory account facilities.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

	Expected contractual future cash flows - continued					Carrying amount		Forecasted
	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	internal rate of return[(4)]
	8,264	35,569	39,313	11,805	190,376	[(2)]1,054	165,333	3.29%
	6,887	11,570	4,754	219	143,068	32	137,233	2.47%
	1,377	23,999	34,559	11,586	47,308	1,022	28,100	
	177	(1,294)	(14)	-	(15,033)	-	(15,033)	
	-	-	-	-	65	-	65	
	1,554	22,705	34,545	11,586	32,340	1,022	13,132	
	605	1,939	506	106	18,604	[(2)]27	17,438	3.54%
	191	493	11	-	38,562	1	37,922	1.29%
	414	1,446	495	106	(19,958)	26	(20,484)	
	224	499	49	-	(15,069)	-	(14,646)	
	253	235	307	-	914	-	686	
	(177)	1,294	14	-	15,033	-	15,033	
	-	-	-	-	(65)	-	(65)	
	237	2,740	509	106	(4,990)	26	(5,516)	
	8,869	37,508	39,819	11,911	208,980	1,081	182,771	3.31%
	7,078	12,063	4,765	219	181,630	33	175,155	2.43%
	1,791	25,445	35,054	11,692	27,350	1,048	7,616	
	8,597	32,881	39,708	11,805	165,094	853	139,972	3.42%
	5,794	6,648	3,719	-	155,948	1	151,833	2.13%

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis(1)(2) - Consolidated and the Bank - continued

As of December 31, 2013

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years	3-4 years
Consolidated						
Assets(3)	38,900	5,579	20,928	22,101	13,455	11,589
Liabilities	86,452	24,112	17,627	14,326	5,691	5,948
Difference	(47,552)	(18,533)	3,301	7,775	7,764	5,641
The Bank						
Assets(4)	33,146	4,033	20,194	19,942	12,416	10,454
Liabilities	73,644	21,454	19,215	15,055	5,932	5,931
Difference	(40,498)	(17,421)	979	4,887	6,484	4,523

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Data as of December 31, 2013 was re-stated. The nature of this re-statement is primarily re-classification of deposit groups under a term in line with potential withdrawal of the deposit on the first exit point available to depositors – rather than under the contractual term. Here are the key amounts re-classified:

- Deposits amounting to NIS 25,530 million re-classified to "On-call to 1 month" and deposits amounting to NIS 6,851 million re-classified to "1-3 months" (amounts re-classified from longer terms, primarily from "3-12 months" and from "1-2 years").

(3) Includes NIS 6,508 million of loans at debitory account terms and NIS 310 million exceeding limits in debitory account facilities.

(4) Includes NIS 5,579 million of loans at debitory account terms and NIS 241 million exceeding limits in debitory account facilities.

(5) Includes assets totaling NIS 361 million which are past due.

(6) Includes assets totaling NIS 249 million which are past due.

(7) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

Expected contractual future cash flows - continued					Balance sheet balance		Contractual rate
4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	of return[7]
9,185	35,514	37,544	11,505	206,300	[5]1,082	177,704	4.58%
2,075	10,569	5,483	1,292	173,575	85	168,952	2.47%
7,110	24,945	32,061	10,213	32,725	997	8,752	
8,736	34,218	37,471	11,341	191,951	[6]953	164,249	4.62%
2,135	11,336	5,483	1,292	161,477	55	157,501	2.74%
6,601	22,882	31,988	10,049	30,474	898	6,748	

Note 19 - Contingent Liabilities and Special Commitments

As of December 31,

Reported amounts (NIS in millions)

Consolidated

	As of December 31,			
	2014		2013	
	Balance[1]	Provision for credit losses	Balance[1]	Provision for credit losses
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	345	2	296	2
- Loan guarantees	2,173	28	2,413	27
- Guarantees to home buyers	10,450	6	9,935	8
- Other guarantees and liabilities[2]	4,007	14	3,519	13
- Unutilized revolving credit card facilities	7,478	6	7,135	5
- Unutilized debitory account and other credit facilities in accounts available on demand	19,773	29	17,460	28
- Irrevocable commitments for loans approved but not yet granted	11,807	12	9,009	15
- Commitments to issue guarantees	7,040	5	6,265	5

The Bank

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	345	2	296	2
- Loan guarantees	2,161	28	2,394	27
- Guarantees to home buyers	10,450	6	9,935	8
- Other guarantees and liabilities[2]	3,974	14	3,487	13
- Unutilized revolving credit card facilities	4,967	5	4,734	4
- Unutilized debitory account and other credit facilities in accounts available on demand	17,813	29	15,639	28
- Irrevocable commitments for loans approved but not yet granted	11,807	12	9,009	15
- Commitments to issue guarantees	7,040	5	6,265	5

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

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 177 million. (on December 31, 2012 - NIS 133 million) see Note 19.D. 2) and Note 15.B.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

B. Off-balance sheet liability for activities based on extent of collection at year end[1]

1. Balance of loans from deposits based on extent of collection [2]

	Consolidated	
	As of December 31,	
	2014	2013[3]
Israeli currency - linked to the CPI	7,673	9,083
Israeli currency - non-linked	2,861	2,161
Foreign currency	115	210
Total	10,649	11,454

2. Cash flows with respect to collection commissions on activities based on extent of collection [2][4]

	Consolidated							
	2014							2013
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
Cash flows of futures contracts	61	106	98	146	44	2	457	555
Expected future cash flows net of management's estimate of early repayments	60	103	95	132	34	1	425	517
Discounted expected future flows net of management's estimate of early repayments[5]	60	100	90	121	28	1	400	476

3. Information on loans made available during the year

	Consolidated	
	2014	2013
Loans out of deposits according to extent of collection	107	149
Standing loans and grants	174	197

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).
(2) Standing loans and related Government deposits given totaling NIS 2,201 million (2013 - NIS 2,541 million) are not included in this table.
(3) Reclassified.
(4) Includes unlinked shekel sector and foreign currency sector.
(5) Discounted at the rate of 1.30% (2013 - 1.65%).

Note 19 - Contingent Liabilities and Special Commitments - continued
As of December 31,
Reported amounts (NIS in millions)

C. Special commitments:

	Consolidated		The Bank	
	2014	2013	2014	2013
Obligations with respect to:				
Long-term rental contracts(1)	659	603	527	458
Computerization and software service contracts	200	174	200	174
Acquisition and renovation of buildings	6	10	6	10
Receipt of deposits on future dates(2)	300	400	300	400

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

	Consolidated		The Bank	
	2014	2013	2014	2013
First year	63	60	44	42
Second year	59	58	42	40
Third year	52	51	35	34
Fourth year	47	48	35	32
Fifth year	44	42	34	31
Sixth year and thereinafter	394	344	337	279
Total	659	603	527	458

(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

D. Contingent liabilities and other special commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 585 million as of December 31, 2014. The Bank's share of the fund as of December 31, 2014 is estimated at NIS 70 million (as of December 31, 2013 – NIS 47 million). The size of the risk fund is updated semi-annually based on the average daily total clearing volume - but no less than NIS 150 million. Each member's share in the risk fund will be determined by a ratio between the member's clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.
   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.
   See Note 15.A regarding liens that the Bank has undertaken to furnish for this liability.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE ("MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.
   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 363 million (as of December 31, 2013 – NIS 307 million).
   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 1,687 million as of December 31, 2014. The Bank's share of the fund as of December 31, 2014 is estimated at NIS 177 million (as of December 31, 2013 – NIS 133 million).
   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.
   For information regarding charges that the Bank undertook to furnish with respect to these liabilities, see Note 15.B.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange ("TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by said company.

4) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

Note 19 - Contingent Liabilities and Special Commitments - continued

There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

5) In December 2001, a General Meeting of the Bank's shareholders ratified the granting a waiver in advance (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank waives in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the former's conduct, arising from their position as officer of the Bank; the Bank also committted to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office, all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not Board members in conjunction with their action as Board member on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to actions related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

On October 28, 2004, the General Meeting of Bank shareholders resolved to add to the list of events for which the Bank granted a commitment to indemnify to its officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

On May 14, 2006, the General Meeting of Bank shareholders resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as Board member on a company in which the Bank owns some shares, and to those serving, from time to time at the Bank's request, as Board member on a company controlled by the Bank.

Note 19 - Contingent Liabilities and Special Commitments - continued

On November 9, 2011, the General Meeting of Bank shareholders resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 - resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

The General Meeting of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specifief in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Meeting of Bank shareholders also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholders equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Meeting of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the Restrictive Trade Practices Act, 1988.

The General Meeting of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

Note 19 - Contingent Liabilities and Special Commitments - continued

6) In May 1998, General Meetings of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

   The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

   The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately - NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

   Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately - will not exceed NIS 750 million (linked to the CPI of March 1998).

   The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately - will be limited to NIS 1,000 million (linked to the CPI of March 1998).

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Meetings of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot ("Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – “the officers”). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders’ equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholders’ equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify (“indemnification letter”) the officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting (“date of record”), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

   Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

Note 19 - Contingent Liabilities and Special Commitments - continued

Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholders' equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

Note 19 - Contingent Liabilities and Special Commitments - continued

10) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to equity holders of the Bank:

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 stated 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" (see section 12 below). The claim alleges, based on the determination by the Supervisor, that the defendant banks were party to a restrictive trade practice, which affected competition and caused coordination of commissions, such that the plaintiffs paid excessive prices for services rendered to them.

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation so as to place the issue under the material jurisdiction of the District Court.

In November 2009, at the Bank's request, the Court handed down its decision, whereby legal proceedings with regard to the two aforementioned lawsuits would currently be put on hold for at least two years.

In February 2012, the Court decided that hearing of these two claims would be delayed pending a resolution by the Anti-Trust Court of an appeal filed by the Bank of the decision by the Anti-Trust Supervisor, whereby the Bank was party to a restrictive trade practice concerning transfer of information with regard to commissions applicable to households and small businesses.

The parties to these claims were in settlement negotiations and on November 16, 2014 the parties filed with the Court an agreed motion for approval of the settlement agreement. The Court has ordered the settlement agreement be made public and has asked for the position of the Government’s Legal Counsel. Such position has yet to be filed. A hearing of the motion to approve the settlement agreement is scheduled for April 16, 2015.

(For more information about these lawsuits, see also section 12 below in this Note.)

B. In November 2009, the Bank received a claim of NIS 804 million filed, by way of originating motion, with the Central District Court in PETACH TIKVA, against the Bank, Bank HA-POALIM, BANK LEUMI, First International Bank of Israel, Discount Bank, Mercantile Discount Bank and BANK IGUD (hereinafter: "the defendant banks"). The background for this claim is a loan obtained by the plaintiffs from the banks in 1999 for purchase of shares (of which the Bank's share was 10%), with the plaintiffs pledging their shares to the banks to secure the loan. Since the plaintiffs were unable to repay their debt, a receiver was appointed for the shares at the request of the defendant banks.

The plaintiffs claim that once a receiver was appointed for the shares, these shares were no longer under their control, and although the decision concerning the sale date of the shares was in the hands of the defendant banks and of the receiver, the defendant banks continued to charge, allegedly unlawfully, "arrears interest" to the plaintiffs throughout the receivership period, with respect to the arrears in loan repayment, which over the years amounted, according to the claim, to the total claim amount.

In January 2010, the Court decision was handed down, whereby the lawsuit would be referred for resolution in the course of a regular claim for monetary remedy, and the Court fee with respect to it would be paid by the plaintiffs. Accordingly, the plaintiffs filed in February 2010 a statement of claim in the amount of NIS 829 million.

In March 2010, the defendants, including the Bank, filed their statements of defense.

Evidence in this case was heard between March 2011 and April 2012, and the parties have filed their summations.

After hearing the evidence, a partial verdict was handed down in July 2013 against the defendant banks and in November 2013, the Court handed down a complementary verdict, requiring the defendants to pay to the plaintiffs the amount of NIS 48.5 million plus interest and linkage differentials since November 9, 2009, reimbursement of fees amounting to NIS 0.5 million and legal fees amounting to NIS 4.2 million. According to the opinion of Legal Counsel, the Bank's share is the same as its share of financing (10%).

The banks have appealed the verdict to the Supreme Court and also filed a motion for a stay of execution of this verdict. The plaintiffs also appealed the verdict. The parties have reached agreement with regard to a stay of execution.

In early October 2014, the summation filing stage with the Supreme Court ended and a verdict has yet to be handed down.

C. In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank - firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount.

The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

Note 19 - Contingent Liabilities and Special Commitments - continued

The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. he reconciliation process is concurrently on-going with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files - and has yet to be completed.

D. In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process is concurrently on-going with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files - and has yet to be completed.

E. In September 2011, a claim and motion for class action status was filed with the Central District Court against the Bank, Bank Leumi LeIsrael Ltd. and Bank HaPoalim Ltd., for alleged unlawful charging of compounded interest, in contravention of statutes and agreements, on housing loans - including targeted loans, eligibility loans and additional loans, excluding standing loans. The total claim amount against the banks was NIS 927 million. The Bank's share of this claim amounts to NIS 364 million.

In May 2012, the Bank filed its response to this claim, claiming that it was unfounded, that the Bank acted in accordance with statutory provisions and did not charge any compounded interest in the manner in which banks in general and the Bank, in particular, acted.

The position of the Supervisor of Banks, which supports the banks' position, was also filed in this case.

In July 2013, an evidentiary hearing took place and the experts on behalf of the parties were questioned.

The plaintiffs have filed their summations and the Bank filed its summation in September 2014.

In December 2014, the plaintiffs filed their summary responses and the parties await the verdict.

Note 19 - Contingent Liabilities and Special Commitments - continued

F. In August 2012, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 2.3 billion against Automated Bank Services Ltd. (hereinafter: "ABS"), major banks including the Bank and others, with regard to alleged unlawful charging of commissions upon cash withdrawal from ATMs operated by ABS and located on premises of the defendant banks. The main claim is that by restricting the maximum withdrawal amount per transaction in these ATMs, the number of cases where withdrawal commissions are charged and paid to ABS increased, as did the number of cases where direct channel transaction commissions are charged for each withdrawal by the bank where the account is managed. According to the claim, the four other banks are named as defendants for being shareholders of ABS, while the Bank is named as defendant, even though its ABS shares were transferred to other shareholders in 1980, but the Bank retained, according to the plaintiff, rights associated with shareholding.

In January 2014, the plaintiff asked in writing for consent by all defendants to withdrawal of this claim with no payment of expenses. In conformity with their consent, an agreed motion for withdrawal has been filed and was approved by the Court on January 29, 2014 - resulting in the motion being rejected.

G. In October 2012, a claim with a 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 1, 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) to the motion and to the banks' responses.

H. In December 2012, a claim and motion for class action status were filed with the Tel Aviv District Court, in the amount of NIS 6 billion, alleging that no notice was given to mortgage borrowers that provisions of a HEYTER ISKA ("transaction permit") apply to their loans and therefore, the Bank over-charged arrears interest on these loans.

The plaintiffs claim that the Bank has failed to fulfill its obligations pursuant to the HEYTER ISKA, and charged the plaintiffs arrears interest which was 10% higher than regular interest.

In July 2013, the Bank filed its response to the motion with the Court.

In January 2014, 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.

Note 19 - Contingent Liabilities and Special Commitments - continued

I. In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.
The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in sections C. and D. above. Since the motion has been included in arbitration, the parties consented to the Bank filing its response to the motion for class action status by April 30, 2015 - should the arbitration proceeding fail.

J. 1) In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President & CEO, personally - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.

In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.

A revised claim filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.

On December 23, 2014, the Bank filed its response to the motion for class action status, which has been scheduled for a pre-trial hearing on March 8, 2015.

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 and 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 hearing of this claim with the first aforementioned claim and the Court has agreed to that motion and has combined both claims. On December 23, 2014, the Bank filed its response to the motion for class action status, which has been scheduled for a pre-trial hearing on March 8, 2015.

K. 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 of 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 precondition 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 pretrial hearing took place. On February 17, 2015, the parties filed a request to withdraw their motion without award of expenses.

The Court accepted their request. This concludes the litigation in this case.

L. 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 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 pretrial hearing took place, where 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 pretrial hearing took place.

A further pretrial hearing is scheduled for April 15, 2015.

Note 19 - Contingent Liabilities and Special Commitments - continued

M. 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 that it controlled. 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 ruin of his business.
The deadline for filing a statement of defense is March 25, 2015. Concurrently, the parties are negotiating a settlement of their differences out of Court.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 11 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 128 million.

11) Motions for class action status 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 on the date of the financial statements, so that no provision was made for them.

A. 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 10.J(2) above. The claim concerns a matter similar to the one discussed in section 10.J above. The claim also alleges that the Bank unlawfully charges a variable minimum fee for foreign currency transfers.
The Bank has yet to file a response to this motion.

B. 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 that this regulation is violated, *inter alia*, by the Bank allowing charges to clients which the Bank could and should have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.
The plaintiff claimed to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.
The Bank filed its response to the motion in October 2014. A common pretrial hearing for the three motions filed against the Bank, Bank Leumi and Discount Bank - against which claims were filed citing similar causes - is scheduled for March 26, 2015.

Note 19 - Contingent Liabilities and Special Commitments - continued

12) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim, Bank Leumi, Bank Discount and First International Bank, with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of its content in any legal proceeding.

    The Bank and the other banks mentioned in the lawsuit have reached agreement with the Anti-Trust Supervisor based, *inter alia*, on cancellation of the ruling and payment by the Bank (and the other banks, respectively) of the amount initially designated for settlement of class action lawsuits concerning alleged breach of anti-trust statutes with regard to the aforementioned collection of commissions.

    On May 1, 2014, the Anti-Trust Supervisor filed a motion with the Anti-Trust Court to confirm the settlement agreement.

    On June 16, 2014, the Anti-Trust Court confirmed the settlement agreement.

    For details of claims filed based on the determination by the Anti-Trust Supervisor, see section 10.A(1),(2) in this Note.

13) During 2011 authorities in Switzerland and in the US have held discussions with regard to the double taxation avoidance treaty signed by those two countries. At the request of authorities in Switzerland, several Swiss banks including Mizrahi Bank Switzerland have provided, since September 2011, statistical information about their business with US clients, to be transferred to authorities in the US.

    In August 2013, Mizrahi Bank Switzerland was informed in a letter from the US DOJ, that an investigation into its business had been initiated. The basis on which the investigation was launched was not noted in the letter. The meaning of the letter is that Mizrahi Bank Switzerland is not included in category 2, which is eligible for a Non-Prosecution Agreement (NPA) under the US DOJ Program for Swiss Banks ("the DOJ Swiss Program"). The financial implications of the DOJ Swiss Program on banks in category 2 are determined in respect to the scope of assets held by American citizens and residents and time they were held. Although the DOJ Swiss Program was not applied to Mizrahi Bank Switzerland because of the letter from the US DOJ, the Mizrahi Bank Switzerland has expressed willingness to assist and co-operate with the US authorities in conformity with the DOJ Swiss Program, and even provided the required statistical information for the US DOJ, as aforementioned. Mizrahi Bank Switzerland reports from time to time to Swiss supervisory authorities with regard to the aforementioned events and the Bank reports these to the Supervisor of Banks from time to time. In addition, in August 2013 DOJ informed the Bank that it was continuing to review back to back loans granted to customers in the Los Angeles branch collateralized by cash deposits in the Bank in Israel. The Bank subsequently provided statistical information concerning such loans.

Note 19 - Contingent Liabilities and Special Commitments - continued

In June 2014 the Bank was first informed that the scope of the investigation is broadened by the US DOJ, that it will regard all cross border operations of the Bank group with its American's customers, and over and above back to back transactions.

In a letter from DOJ dated July 25, 2014 the Bank Group was required to submit information and data regarding a wide spectrum of issues and subjects concerning the cross border activities of its American customers, including account data for January 1, 2002 through July 31, 2014 ("the applicable period"), internal communication and external communication using electronic communication, operations and marketing, compliance, employee training and benefits, statistical information of American customers' accounts in the applicable period, policy documents and procedures, internal and external audit reports regarding the Bank Group activity for its American customers and a long line of documents and information that were detailed in said letter.

In order to gather the information and data as required by the US DOJ, the Bank has retained the services of external experts to examine and validate the information and legal advisers in the US, that joined the team of legal advisors (local and American) of the Bank Group, and in the first quarter of 2015 the team was enhanced with additional legal advisors.

In a letter dated November 25, 2014 to the US DOJ, the advisers handling the matter on behalf of the Bank, along with the external advisers, provided a preliminary, detailed description of the mapping process of account data and electronic communications available thru the electronic means in the Bank group (in Israel, Switzerland, London and Los Angeles) in order to respond to the DOJ requirements to receive information and data concerning the Bank group business with its American customers, both in the quantity aspects and in the quality aspects. This preliminary response to the July 25 letter was based on site visits to each group location by the advisers and meetings held with the bank officials, in order to evaluate the complexity and the scope of the information and data required by the US DOJ.

In the aforementioned letter, external experts have assessed the timetable needed for examining the outline of the electronic information, regarding the Bank's, American customers, to analyze the information in accordance with the defined criteria and validating the findings. According to the preliminary assessment by the external experts, the statistic information should have been ready to delivery to the US DOJ in the US not before April 30, 2015, subject to contingencies, assumptions and limitations detailed by them. Recently the external experts have informed us that due to the complexity of the required information, the time table could be delayed for a few months, and the updated timetable is subject to additional contingencies, assumptions and limitations as aforementioned.

These days the Bank is intensively building a computerized database that includes all of the quantity information in respect to the American customers and the quality information regarding electronic communications that were send in respect to those customers, and gathering information and data that was requested by the US DOJ.

Mizrahi Bank Switzerland and the Bank are in constant contact with the US DOJ in order to reach an appropriate outline to resolve the investigation for the Bank group in its entirety.

The Bank reports to the Supervisor of Banks from time to time on the aforementioned events.

Note 19 - Contingent Liabilities and Special Commitments - continued

On December 2014 agreements with an Israeli bank, that was under investigation were publicized, among them is the Deferred Prosecution Agreement with the US DOJ. Furthermore, it was also published, in the same report, that the DOJ Swiss Program was applied to a Swiss subsidiary company of the same bank. The Bank's position is that no equal sentence should be derived from the manner in which different banks were managed and the cross-border businesses of each were structured, and from specific agreements of those banks to the Bank group, including possible agreements of the Bank Group with the US DOJ.

Never the less, the Supervisor of Bank, after examining the material and from standpoint of conservative accounting, has ordered the Bank to accumulate provision due to the subjects intertwine in the events aforementioned and later order to disclose it in the annual report. In accordance with it and in reserving the full rights and claims of the Bank Group the Bank's annual report contains a provision of NIS 95 million, estimated on the basis of the theoretical assumption, which the Supervisor of Bank instructed, that Mizrahi Bank Switzerland will be included in the DOJ Swiss Program group of banks that are not subject to the DOJ Swiss Program, although it was previously informed that the program does not apply to it, and according to the Bank's understanding at this time of the meaning of the DOJ Swiss Program.

According to the Securities Authorities requirement this note includes details and more explanations and specifications about the sum of the provisions that were made in the previous quarters, although the Bank's opinion is that the sums are not material, as follows: in the second quarter – NIS 35 million, in the third quarter – NIS 5 million and in the fourth quarter- NIS 55 million and in total - NIS 95 million.

In this preliminary stage of gathering the data and information required, we are unable to evaluate the possible ramifications of the investigation on each and every site of cross border activity of the Bank Group.

It should be noted, that at this time there is no negotiation with the US DOJ with connection to the investigation (that is still ongoing) or its ramifications, both in the aspect of a future form of agreement (whether in the category of Non Prosecution Agreement (N.P.A) or in the Deferred Prosecution Agreement (D.P.A)) or in the aspect of the financial implications, should there be, to these agreements when they are reached for the Bank Group.

It should also be noted that based on the opinion of the Bank's legal advisors, we are unable to provide an estimate of the range or amount of the potential loss due to the aforementioned events, or the amount of exposure of the Bank Group regarding this or the range of the exposure. That, among the rest, because according to the professional experience of the American attorneys, one cannot infer on the subject, but only after analyzing all the information and data submitted, and since the gathering of the required information is still in preliminary stage and the discussions with the US DOJ regarding an appropriate outline for the Bank Group, are expected to start only after all of the requirements to supply data and information were completed.

On April 14, 2014 the Bank's branch in L.A was served a subpoena to submit documents related to a bank employee and to an employee who retired 5 years ago and to services given by the L.A branch, if these documents exists in the Los Angeles branch of the Bank. The Los Angeles branch was working to produce all the required documents.

On April 30, 2014 an indictment was returned in the United States District Court in Los Angeles against a bank's employee that was retired. He was indicted for allegedly helping American customers of the Bank to avoid paying taxes. The bank was not indicted in the indictment and was mentioned as "Bank a in Tel Aviv" and no violation was attributed to the Bank. On September 19, 2014 the Bank was required by the US DOJ to produce documents and statistical information regarding the indictment. On October 28, 2014 the trial of said retired employee began. On October 31, 2014 the Bank employee was acquitted of all charges by a jury.

14) On November 18, 2008, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand (hereinafter: "the cards"), to be distributed by the Bank to its clients. The agreement stipulates the parties' rights as well as operating arrangements and service provision by CAL Group for the cards, as well as all other related terms and conditions.

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted.

The agreement expired on November 18, 2013 and the Bank did not exercise any options during this period.

On March 2, 2014, the Bank and CAL Group signed an agreement revising the joint issuance agreement.The revised agreement is effective for a 5-year term from its signing date.

This agreement updated the operating and marketing arrangements for the cards, as well as remuneration of the parties.

The agreement is subject to all regulatory requirements required by statute, if any.

The signed agreement has no material impact on the Group's financial statements.

15) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

Note 19 - Contingent Liabilities and Special Commitments - continued

16) In a labor agreement signed between the Bank and its employee representatives on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection, which bear specified interest and are CPI-linked. It was agreed that if, on the maturity date of each of the aforementioned loans, it becomes clear that the linkage differentials and the interest accrued exceed the yield accumulated in an agreed provident fund, they would be reduced accordingly. The tax effects, if any, related to this reduction will devolve on the Bank. When such a difference is created, an appropriate provision is made.
As of the balance sheet date, the balances of these loans amount to NIS 16 million.

17) The Bank has undertaken vis-à-vis the trustee of the debentures and subordinated notes issued by Mizrahi Tefahot Issue Company, to fulfill the payment terms, as stated in the debentures and subordinated notes.

18) The Bank has committed to borrowers in certain savings plans who would borrow from the Bank, under the following fixed terms(1):

	December 31,	
	2014	2013
0.25% less than the interest prevailing at the time the loan was issued	960	1,268

(1) The commitment may be utilized only if certain conditions stipulated in the savings plans are met. Granting of credit is subject at all times to the Bank's exclusive discretion, in accordance with procedures specified by the Bank, with due consideration to client attributes and subject to review of the actual client application for credit to be granted by the Bank.

19) As from July 1, 2004, a two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after said date. This agreement has been continuously extended each year, most recently through June 30, 2015.
In May 2008, another agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed annually, unless any of the parties gives notice of their wish to terminate the agreement), whereby loans to eligible borrowers with low point rating are provided out of Bank funds and at Bank risk. The interest on these loans is determined based on the interest on special assistance loans out of Ministry of Finance funds.

Note 19 - Contingent Liabilities and Special Commitments - continued

Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For loans granted to certain eligible borrowers, the Ministry of Finance pays the banks which grant loans out of Bank funds the difference between the actual interest rate charged and the average interest rate published by the Bank of Israel, plus a spread. Concurrently with loan origination, as stated above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the Group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

The agreement for provision of assistance to eligible borrowers out of Bank funds, signed in 2008, has been extended through April 30, 2015.

Group revenues from all loans to eligible borrowers under State responsibility in 2014 amounted to NIS 56 million, compared to NIS 64 million in 2013.

On January 1, 2015, the Bank joined the campaign for “fast track re-financing of directed loans”, launched by the Bank of Israel and by the Ministry of Construction. According to a notice issued by the Bank of Israel (Bank-Client Division), this campaign started on January 1, 2015 and would conclude on May 31, 2015. It is designed to enable eligible borrowers who have obtained a loan out of State funds, to improve the terms and conditions of their loans in the NIS-denominated, CPI-linked segment.

The change in terms and conditions would be fast-tracked and would be funded by the bank and under bank supervision, in the CPI-linked, fixed interest track, for the remaining loan term.

According to the circular, loans provided by the Bank during this campaign would be exempt from the group-based provision at 0.35% stipulated by Proper Conduct of Banking Business regulation no. 329. The risk weighting for these loans would be reduced with regard to capital adequacy for said loans.

The circular also includes other provisions designed to encourage borrowers to participate in this campaign.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity

a) Activity on consolidated basis

	As of December 31, 2014					
	Interest contracts				Commodities and other 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 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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

a) Activity on consolidated basis - continued

						As of December 31, 2014
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Foreign currency spot swap contracts						
Foreign currency spot swap contracts	-	-	8,535	-	-	8,535
Total stated amounts of 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[(3)]	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	847	-	2,103
Total						
Positive 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[(3)]	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	581	-	1,662

(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 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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

a) Activity on consolidated basis - continued

	As of December 31, 2013					
	Interest contracts				Commodities and other contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares		Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives(1)						
Forward contracts	1,803	-	-	-	-	1,803
Swaps	-	(3)2,127	-	-	-	2,127
Total	1,803	2,127	-	-	-	3,930
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,127	-	-	-	2,127
B. ALM derivatives(1)(2)						
Forward contracts	9,066	900	52,204	-	47	62,217
Option contracts traded on stock exchange:						
Options written	-	-	4,540	2,317	-	6,857
Options purchased	-	-	3,536	2,318	-	5,854
Other option contracts:						
Options written	-	-	12,362	-	-	12,362
Options purchased	-	-	12,542	-	-	12,542
Swaps	2,042	34,703	11,027	-	-	47,772
Total	11,108	35,603	96,211	4,635	47	147,604
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,492	20,082	-	-	-	21,574
C. Other derivatives(1)						
Forward contracts	-	-	931	-	-	931
Option contracts traded on stock exchange:						
Options written	-	-	7,180	15,305	-	22,485
Options purchased	-	-	7,180	15,305	-	22,485
Other option contracts:						
Options written	-	75	-	514	-	589
Options purchased	-	65	-	560	-	625
Swaps	-	(3)3	-	3,291	-	3,294
Total	-	143	15,291	34,975	-	50,409

(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.
(3) Re-classified.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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

a) Activity on consolidated basis - continued

						As of December 31, 2013
	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	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	990	-	-	990
Total	-	-	990	-	17	1,007
Total stated amounts of derivatives	12,911	37,873	112,492	39,610	64	202,950
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	3	7	-	-	-	10
Negative fair value, gross	-	181	-	-	-	181
B. ALM derivatives(1)(2)						
Positive fair value, gross	169	1,082	1,595	335	2	3,183
Negative fair value, gross	191	1,320	1,450	17	2	2,980
C. Other derivatives(1)						
Positive fair value, gross	-	12	159	253	-	424
Negative fair value, gross	-	-	143	248	-	391
Total						
Positive fair value, gross(3)	172	1,101	1,754	588	2	3,617
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	172	1,101	1,754	588	2	3,617
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	48	153	1,049	588	1	1,839
Total						
Positive fair value, gross(3)	191	1,501	1,593	265	2	3,552
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	191	1,501	1,593	265	2	3,552
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	8	167	970	265	1	1,411

(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 11 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 14 million.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. 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					
	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 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.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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

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

	As of December 31, 2013					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**681**	**2,003**	**29**	**112**	**792**	**3,617**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,627)	-	-	-	(1,627)
Mitigation of credit risk with respect to cash collateral received	-	(95)	-	(72)	(17)	(184)
Net amount of assets with respect to derivatives	681	281	29	40	775	1,806
Off-balance sheet credit risk on financial derivatives[2]	-	1,501	76	-	2,038	3,615
Mitigation of off-balance sheet credit risk	-	(502)	-	-	-	(502)
Net off-balance sheet credit risk with respect to derivatives	-	999	76	-	2,038	3,113
Total credit risk on financial derivatives	681	1,280	105	40	2,813	4,919
Carrying amount of liabilities with respect to derivatives[3]	**388**	**2,341**	**-**	**-**	**823**	**3,552**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,627)	-	-	-	(1,627)
Pledged cash collateral	-	(597)	-	-	-	(597)
Net amount of liabilities with respect to derivatives	388	117	-	-	823	1,328

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 11 million.

(2) The difference, if positive, between 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 14 million.

In 2014, the Bank recognized credit losses with respect to derivatives, amounting to NIS 10 million (in 2013, the Bank recognized revenues from lower credit losses amounting to NIS 28 million; in 2012 the Bank recognized credit losses amounting to NIS 42 million).

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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

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

					As of December 31, 2014
	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

					As of December 31, 2013
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	2,406	4,949	3,501	2,055	12,911
Other	4,062	6,794	13,466	13,551	37,873
Currency contracts	59,784	41,447	4,360	6,901	112,492
Contracts for shares	37,083	2,413	114	-	39,610
Commodities and other contracts	31	33	-	-	64
Total	103,366	55,636	21,441	22,507	202,950

Note 19 - Contingent Liabilities and Special Commitments - continued

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

d) Description of derivative instruments and the risks inherent in such activity

1) General

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivates as fair value hedges or as cash flow hedges. For details, see Note 1.R.

2) Types and description of activity in derivative instruments

The activities in derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments ("underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a predetermined fixed price, quantity and time.
- Spot trades (transactions for immediate delivery):

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.

Note 19 - Contingent Liabilities and Special Commitments - continued

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

3) Risks inherent in derivative instrument activities:

The Bank's activities in derivative instruments expose it to credit risks and to market risks that include interest risks, basis risks and liquidity risks, as detailed below:

A. Credit exposure in derivative instruments, which is defined by the Supervisor of Banks as "present credit exposure", quantifies the maximum possible loss that the Bank will sustain if the other party does not fulfill the terms of the transaction, after deducting enforceable set-off agreements, and without taking collateral into account. To manage the credit extent of the exposure inherent in derivative instruments over the life of the transaction, the exposure is estimated at the price of the commitment in the reverse transaction for the remaining life of the transaction.

Collateral requirements are determined according to the type of customer, and sometimes, at a fixed percentage of the credit facility determined for a given customer. In other cases, exposure is determined according to scenarios based on the Black and Scholes Model. The collateral required by the Bank usually includes liquid collateral such as securities, deposits, etc., and is valued as collateral in accordance with the various collateral coefficients used by the Bank.

In the credit derivatives written by the Bank, the credit exposure is expressed in the amount that the Bank will be obliged to pay if the event stipulated in the contract occurs.

B. Market risk – the risk of fluctuation in fair value of derivatives due to unforeseen changes in interest rates, inflation rate, exchange rates and other financial benchmarks. The Bank manages the market risks involved in financial derivatives by including these instruments within the management of exposure to market risks of the entire range of the Bank's operations.

C. Liquidity risk – the risk of inability to quickly close the exposure by cash payment or by creating reverse exposure. The derivative instruments and their effect on liquidity needs are an integral part of the management of the Bank's liquidity risk in accordance with Proper Conduct of Banking Business Regulation 342.

D. Operating risk – the risk of erroneous operation of transactions, beginning from the date they are entered into until they are settled, due to human error or to machine error. The Bank minimizes operating risk in its derivatives operations by using computer-based processes and a complementary set of controls.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

The estimate of fair value using future cash flows and determination of a discount rate are subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.

The early repayment assumptions in mortgages are based on empirical testing of the early repayment rate out of all mortgages, on annual basis. These assumptions are tested from time to time against actual early repayments for each linkage segment and for each interest type individually.

Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.

The early repayment assumptions resulted in a NIS 157 million decrease in total fair value of assets, and in a NIS 4 million decrease in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to Bank management, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

C. Negotiable securitirs, see Note 1.T.

D. Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated. The housing loan balance composition was calculated by homogeneous risk categories.

   These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar client (for housing loans – a rate which reflects the risk associated with the category).

   In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

F. Troubled debt – fair value is calculated using discount rates that reflects the high inherent credit risk . In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debt were calculated after deducting the provisions for credit losses and after deduction of accounting write-offs.

   A decrease of 1% in the discount rate affects the fair value of troubled debt of the Group by NIS 25 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance on the financial statements as of the balance sheet date approximates the fair value.

H. Derivatives – see Note 1.T.

I. Financial instruments with original maturity of three months or shorter (other than derivatives and negotiable financial instruments) – the balance on the financial statements as of the balance sheet date approxumates the fair value, subject to changes in credit risk and in Bank margin.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

					Consolidated
					December 31, 2014
	Carrying	Fair value			
	amount	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	148,234
Loans to Governments	307	-	-	300	300
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	5,602	939	3,686	[(2)]977	5,602
Other financial assets	1,931	675	-	1,256	1,931
Total financial assets	[(4)]196,608	18,597	34,102	144,648	197,347
Financial liabilities					
Deposits from the public	152,379	487	32,571	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 repurchase 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	4,871	390	3,291	1,190	4,871
Total financial liabilities	[(4)]185,863	21,550	40,945	126,864	189,359

(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 42,317 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.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

					Consolidated
					December 31, 2013
	Carrying	Fair value			
	amount	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	26,060	3,067	19,878	3,118	26,063
Securities(3)	7,000	4,222	2,491	298	7,011
Securities loaned or sold in repurchase agreements	70	70	-	-	70
Loans to the public, net	138,565	278	9,446	130,405	140,129
Loans to Governments	305	-	-	305	305
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,606	708	2,362	(2)536	3,606
Other financial assets	2,040	908	-	1,132	2,040
Total financial assets	(4)177,681	9,253	34,177	135,829	179,259
Financial liabilities					
Deposits from the public	141,244	278	31,422	111,891	143,591
Deposits from banks	2,041	-	42	2,035	2,077
Deposits from the Government	62	-	-	74	74
Debentures and subordinated notes	16,443	15,684	-	2,024	17,708
Liabilities with respect to derivatives	3,538	389	2,417	(2)732	3,538
Other financial liabilities	4,634	(5)736	3,185	(5)714	4,635
Total financial liabilities	(4)167,962	17,087	37,066	117,470	171,623

(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 41,640 million and NIS 32,478 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) Reclassified.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

				Consolidated
				December 31, 2014
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures				
Of Government of Israel	4,459	2,877	-	7,336
Of foreign governments	115	-	-	115
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	20	199	219
Of others in Israel	1	-	-	1
Of others overseas	-	50	16	66
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	1,034	-	-	1,034
Securities loaned or 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	-	-	6	6
Total liabilities	1,395	4,776	1,042	7,213

(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.

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

1. On recurring basis

				Consolidated
				December 31, 2013
	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	659	2,358	-	3,017
Of foreign governments	82	-	-	82
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	48	176	224
Of others in Israel	23	-	-	23
Of others overseas	-	85	24	109
Securities held for trading:				
Debentures of the Government of Israel	1,552	-	-	1,552
Securities loaned or sold in repurchase agreements	70	-	-	70
Credit with respect to loans to clients	278	-	-	278
Assets with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	-	116	56	172
Other	-	1,034	67	1,101
Currency contracts	222	1,211	321	1,754
Contracts for shares	486	-	91	577
Commodities and other contracts	-	1	1	2
Other financial assets	908	-	-	908
Other	-	-	11	11
Total assets	4,404	4,853	747	10,004
Liabilities				
Deposits with respect to borrowing from clients	278	-	-	278
Liabilities with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	-	180	11	191
Other	-	1,367	134	1,501
Currency contracts	221	869	503	1,593
Contracts for shares	168	-	83	251
Commodities and other contracts	-	1	1	2
Other financial liabilities	21	-	-	21
Other	-	-	14	14
Total liabilities	688	2,417	746	3,851

(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 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

2. On non-recurring basis

	Consolidated				
	December 31, 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	1	228	283	119

	Consolidated				
	December 31, 2013				For the year ended December 31, 2013
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Loss
Impaired credit whose collection is contingent on collatera	185	115	237	537	21

(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 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

									Consolidated
									For the year ended December 31, 2014
		Realized / unrealized gain (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 Asset-backed	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 20 – 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 - Continued:

									Consolidated
									For the year ended December 31, 2013
		Realized / unrealized gain (loss) included, net[1]							
	Fair value as of December 31, 2012	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, 2013	Unrealized gain (loss) with respect to instruments held as of December 31, 2013
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	229	(13)	-	-	-	(40)	-	176	(12)
Of others overseas	31	(2)	-	-	(5)	-	-	24	(2)
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	101	(64)	-	4	-	(65)	80	56	65
Other	173	43	-	5	-	(154)	-	67	38
Currency contracts	493	326	-	466	-	(964)	-	321	189
Contracts for shares	78	122	-	76	-	(185)	-	91	-
Commodities and other contracts	1	2	-	2	-	(4)	-	1	1
Other	6	5	-	-	-	-	-	11	-
Total assets	1,112	419	-	553	(5)	(1,412)	80	747	279
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	48	(6)	-	7	-	(51)	13	11	(1)
Other	325	95	-	11	-	(297)	-	134	3
Currency contracts	709	236	-	791	-	(1,233)	-	503	(422)
Contracts for shares	68	108	-	76	-	(169)	-	83	-
Commodities and other contracts	2	-	-	3	-	(4)	-	1	(1)
Other	4	10	-	4	-	(4)	-	14	-
Total liabilities	1,156	443	-	892	-	(1,758)	13	746	(421)

(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 20 – 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	5	Estimated recovery rate	Recovery rate	5.00%	5.00%
CLN	194	Cash flow discounting	Probability of default	1.23%-0.22%	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	0.38%-0.35%	0.36%
Contracts for shares	10	Option pricing model	Standard deviation for shares	28.60%-18.21%	26.5%
Other	904	Cash flow discounting	Counter-party credit quality	3.10%-0.30%	1.72%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	4	Cash flow discounting	Inflationary expectations	0.38%-0.35%	0.36%
Other	1,038	Cash flow discounting	Counter-party credit quality	3.10%-0.30%	1.72%

					Consolidated
	Fair value as of December 31, 2013	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recovery rate	Recovery rate	5.00%	5.00%
CLN	171	Cash flow discounting	Probability of default	1.46%-0.40%	1.24%
Debentures of foreign others	24	Cash flow discounting	Discount rate	5.85%-4.47%	5.57%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	39	Cash flow discounting	Inflationary expectations	1.67% - 1.59%	1.62%
Contracts for shares	11	Option pricing model	Standard deviation for shares	29.23% - 19.00%	21.9%
Other	497	Cash flow discounting	Counter-party credit quality	3.60% - 1.20%	1.94%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	10	Cash flow discounting	Inflationary expectations	1.67% - 1.59%	1.62%
Other	736	Cash flow discounting	Counter-party credit quality	3.60% - 1.20%	1.94%

Note 20 – 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 classiying them under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of 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 20 – 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:

		Consolidated
	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

		Consolidated
	Fair value as of December 31, 2013	Profit with respect to change in fair value for the year ended December 31, 2013
Securities available for sale	850	21

Note 21 - Interested and Related Parties - Consolidated

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2014									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Key executives[4]		Others(5)		Interested parties upon the transaction date		Jointly-owned associates or investees	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets										
Loans to the public	1	1	10	11	361	577	-	-	2	13
Investments in associates	-	-	-	-	-	-	-	-	52	64
Liabilities										
Deposits from the public	14	18	58	71	612	1,771	-	-	10	27
Shares (included in shareholders' equity)[2]	4,895	4,895	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[3]	-	1	12	13	213	284	--		-	-

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's capital.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Key executives of the banking corporation or its parent company, including Board members and CEOs, along with their relatives.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest, jointly owns, has significant influence or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

	As of December 31, 2013									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Key executives[(4)]		Others(5)		Interested parties upon the transaction date		Jointly-owned associates or investees	
	Balance as of balance sheet date	Highest balance during the year[(1)]	Balance as of balance sheet date	Highest balance during the year[(1)]	Balance as of balance sheet date	Highest balance during the year[(1)]	Balance as of balance sheet date	Highest balance during the year[(1)]	Balance as of balance sheet date	Highest balance during the year[(1)]
	-	-	13	15	378	476	-	-	2	15
	-	-	-	-	-	-	-	-	60	62
	9	10	53	57	978	1,070	1	5	5	6
	4,405	4,405	-	-	-	-	-	-	-	-
	-	1	6	7	218	243	1	1	-	7

Note 21 - Interested and Related Parties - continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended Dec			
		Interested parties		Related parties owned by the banking corporation
	Controlling shareholders	Key executives(1)	Others(2)	Jointly-owned associates or investees
Interest revenues from loans to the public	-	-	8	-
Interest expenses for deposits from the public	-	(1)	(9)	-
Total interest revenues (expenses), net	-	(1)	(1)	-
Non-interest financing revenues	-	-	1	1
Operating and other expenses	-	(58)	(3)	-
Total	-	(59)	(3)	1

C. Remuneration and other benefits payable to interested parties (by the banking corporation and its investees)

	For the year ended December 31,			
	2014			
		Key executives(1)		Others(2)
	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries
Interested party employed by or on behalf of the corporation	(3)51	14	-	-
Board member not employed by or on behalf of the corporation	7	13	-	-
Other interested party not employed by or on behalf of the corporation	-	-	3	5

(1) Key executives of the banking corporation or its parent companyf, including Board members and CEOs, along with their relatives.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest, jointly owns, has significant influence or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

(3) Of which: Short-term employee benefits: NIS 34 million (2013- 25; 2012 - 23); post-employment benefits NIS 7 million (2013- 3; 2012 - 1); share-based payment: NIS 10 million (2013- 5; 2012 - 10).

	2013				2012			
	Interested parties			Related parties owned by the banking corporation	Interested parties[4]			Related parties owned by the banking corporation
	Controlling shareholders	Key executives[1]	Others(2)	Jointly-owned associates or investees	Controlling shareholders	Key executives[1]	Others(2)	Jointly-owned associates or investees
	-	-	6	-	-	-	20	1
	-	-	(1)	-	-	-	(2)	-
	-	-	5	-	-	-	18	1
	-	-	-	-	-	-	2	-
	-	(40)	(3)	-	-	(41)	(3)	-
	-	(40)	2	-	-	(41)	17	1

	2013				(2012)[4]			
	Key executives[1]		Others(2)		Key executives[1]		Others(2)	
	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries
	[3]33	14	-	-	[3]34	14	-	-
	7	14	-	-	7	14	-	-
	-	-	3	3	-	-	3	3

Note 22 - Interest revenues and expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
A. Interest revenues[(1)]						
From loans to the public	5,129	6,066	6,146	4,770	5,723	5,814
From loans to Governments	9	9	7	9	9	7
From deposits with the Bank of Israel	108	172	159	91	139	153
From deposits with banks	13	42	56	6	33	16
From securities loaned or sold in repurchase agreements	1	1	4	1	1	4
From debentures	87	152	219	85	144	164
Total interest revenues	5,347	6,442	6,591	4,962	6,049	6,158
B. Interest expenses						
On deposits from the public	1,393	2,150	2,591	1,674	2,511	2,820
On deposits from governments	3	4	5	3	4	5
On deposits from banks	18	35	68	145	246	252
On debentures and subordinated notes	556	786	710	198	282	275
From other liabilities	2	3	3	2	3	3
Total interest expenses	1,972	2,978	3,377	2,022	3,046	3,355
Total interest revenues, net	3,375	3,464	3,214	2,940	3,003	2,803
C. Details of net effect of hedging financial derivatives on interest revenues	(46)	25	(73)	(46)	25	(73)
D. Details of interest revenues on accrual basis from debentures						
Held to maturity	33	23	26	10	-	-
Available for sale	45	112	174	66	127	147
Held for trade	9	17	19	9	17	17
Total included under interest revenues	87	152	219	85	144	164

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

Note 23 - Non-interest financing revenues
For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
A. Non-interest financing revenues (expenses) with respect to non-trade operations						
1. From activity in derivatives						
Non-effective element of hedging ratios[1]	3	-	(2)	3	-	(2)
Net revenues (expenses) with respect to ALM derivatives[2]	1,373	(548)	(100)	1,373	(548)	(100)
Total from activity in derivatives	1,376	(548)	(102)	1,376	(548)	(102)
2. From investment in debentures						
Gain on sale of debentures available for sale	110	52	118	110	38	113
Loss on sale of debentures available for sale	-	(1)	(5)	-	(1)	(4)
Provision for impairment of debentures available for sale	-	-	(8)	-	-	(8)
Total from investment in debentures	110	51	105	110	37	101
3. Exchange rate differences, net	(1,566)	525	(21)	(1,582)	551	(30)
4. Gain (loss) from investment in shares						
Gains on sale of available-for-sale shares	5	1	5	5	1	5
Provision for impairment of available-for-sale shares	(2)	(3)	-	(2)	(3)	-
Dividends from available-for-sale shares	8	1	24	8	1	24
Total from investment in shares	11	(1)	29	11	(1)	29
Total non-interest financing revenues (expenses) with respect to non-trade operations	(69)	27	11	(85)	39	(2)

(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 23 - Non-interest financing revenues - Continued

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
B. Non-interest financing revenues (expenses) with respect to trading activities(1)						
Net revenues (expenses) with respect to other derivatives	238	(51)	40	238	(51)	40
Realized gain from adjustment to fair value of debentures held for trade, net	37	20	32	37	20	32
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	(33)	18	12	(33)	18	12
Total from trade operations(2)	242	(13)	84	242	(13)	84
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure						
Risk exposure	25	45	44	25	45	44
Foreign currency exposure	206	(80)	22	206	(80)	22
Exposure to shares	12	13	(3)	12	13	(3)
Exposure to commodities and others	(1)	9	21	(1)	9	21
Total	242	(13)	84	242	(13)	84

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

(2) For interest revenues from investment in debentures held for trade, see Note 22.D.

Note 24 - Commissions

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Account management(1)	298	298	297	274	275	273
Translation differences	137	132	129	125	121	117
Credit cards	156	150	142	106	105	98
Credit processing(2)	56	148	161	56	143	150
Foreign trade activity	43	34	34	43	34	34
Activity in securities and certain derivatives	238	223	215	194	178	169
Net revenues from credit portfolio service	62	72	77	61	69	75
Commissions on distribution of financial products	54	47	40	38	36	32
Home insurance distribution commissions	21	24	26	-	-	-
Life insurance distribution commissions	95	91	103	22	27	34
Commissions from financing transactions(2)	181	168	153	180	167	152
Provident fund operations	19	40	42	19	20	21
Other commissions	35	31	33	26	27	25
Total operating commissions	1,395	1,458	1,452	1,144	1,202	1,180

(1) In Israeli and foreign currency

(2) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Note 25 - Other revenues

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Gain from sale of buildings and equipment	10	-	-	10	-	-
Revenues from security services	7	7	6	7	7	6
Trustee fees	15	11	6	-	-	-
Other	12	9	14	16	12	14
Total other revenues	44	27	26	33	19	20

Note 26 - Salaries and Related Expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Salaries (including bonuses)	1,217	1,183	1,110	1,060	1,017	953
Expense arising from share-based payment transactions[1]	37	8	31	37	6	28
Severance pay, provident and pension, continuing education fund and vacation	190	211	202	173	183	188
National Insurance and VAT on salaries	382	366	322	341	326	288
Other related expenses	26	53	22	16	44	15
Supplement to provisions for related expenses, due to changes in salaries during the current year	17	15	14	2	2	2
Total salaries and related expenses	1,869	1,836	1,701	1,629	1,578	1,474
Of which: Payroll and associated expenses overseas	51	49	49	39	37	35

(1) For further information, see Note 16.A.

Note 27 - Other Expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Marketing and advertising	58	68	65	49	52	50
Communications	40	42	43	30	32	32
Computer	71	60	72	8	9	12
Office expenses	36	40	34	30	33	27
Insurance	10	11	12	10	11	11
Professional services	91	71	74	78	61	64
Board members' fees	9	10	9	7	7	7
Training and continuing education	9	7	8	6	4	5
Commissions	32	28	23	32	28	23
Cars and travel	40	38	42	40	37	41
Sundry	62	63	51	48	52	46
Total other expenses	458	438	433	338	326	318

Note 28 - Provision for Taxes on Profit
For the year ended December 31,
Reported amounts (NIS in millions)

A. Composition

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Current taxes -						
For the current year	624	636	566	550	552	486
For prior years	4	12	26	4	21	25
Total current taxes	628	648	592	554	573	511
Changes in deferred taxes -						
For the current year	46	(62)	7	49	(57)	5
For prior years	(1)	6	-	(1)	(1)	-
Total deferred taxes	45	(56)	7	48	(58)	5
Total provision for taxes on income	673	592	599	602	515	516
Includes provision for taxes overseas	24	20	18	23	19	16

Note 28 - Provision for Taxes on Profit
For the year ended December 31,
Reported amounts (NIS in millions)

B. Reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Statutory tax rate applicable to a bank in Israel	37.71%	36.21%	35.53%	37.71%	36.21%	35.53%
Tax amount based on statutory tax rate	672	622	613	581	534	519
Tax (tax saving) from:						
Income of subsidiaries in Israel[(1)]	(18)	(21)	(16)	(7)	(8)	(6)
Income of subsidiaries overseas	(7)	7	(2)	-	-	-
Special and supplementary provision for doubtful debts	4	4	4	4	4	4
Exempt income	(2)	-	(2)	(2)	-	-
Adjustment differences on depreciation, amortization and capital gains	-	(1)	(1)	-	(1)	(1)
Other non-deductible expenses	8	7	9	9	6	8
Temporary differences and losses for which deferred taxes have not been recorded	15	(4)	(14)	15	(4)	(14)
Taxes for prior years	1	18	26	2	20	25
Change in deferred tax balances due to change in tax rates	-	(38)	(12)	-	(36)	(11)
Adjustment differences on monetary assets and other differences, net	-	(2)	(6)	-	-	(8)
Total provision for taxes on income	673	592	599	602	515	516

(1) At the Bank - revenues of auxiliary corporations.

Note 28 - Provision for Taxes on Profit - continued
For the year ended December 31,

Reported amounts (NIS in millions)

C. On May 28, 2013, the Minister of Finance signed an ordinance which increased the VAT rate on transactions and imports of goods from 17% to 18%, as from June 2, 2013.

On June 2, 2013, the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), 2013 was published, updating the profit tax and payroll tax rates applicable to financial institutions, to 18% as from June 2, 2013. Furthermore, the payroll tax rate applicable to financial institutions was increased from 17% to 18% with respect to pay for work performed as from June 2013.

On July 30, 2013, the Knesset Plenum approved the 2013-2014 Economic Plan (the Budget Act), which includes an increase of the corporate tax rate from 25% to 26.5% as from January 1, 2014.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Statutory tax rate
2013	36.21%
2014 and later	37.71%

D. The Bank has finalized tax assessments, or tax assessments deemed to be final, through the 2010 tax year. Bank Yahav has finalized tax assessments through 2010. In December 2014, the Tax Assessor issued tax assessments with regard to payroll tax liabilities with respect to 2009-2010. These tax assssments amount to NIS 10 million, including linkage and interest. For 2009, a mandated tax assessment was issued. The Bank disputes these tax assessments and therefore has filed an appeal with regard to 2009 and reservations with regard to 2010.

Note 28 - Provision for Taxes on Profit - continued
For the year ended December 31,
Reported amounts (NIS in millions)

E. Deferred tax assets and provision for deferred taxes

	Consolidated				The Bank			
	December 31,				December 31,			
	Balances		Average tax rate in %		Balances		Average tax rate in %	
	2014	2013	2014	2013	2013	2013	2014	2013
Deferred taxes for:								
Provision for credit losses[(1)]	457	449	37.7	37.7	432	428	37.7	37.7
Provision for vacation pay, long-service bonuses and employee rights[(1)]	73	93	37.7	37.7	59	80	37.7	37.7
Excess provision for employee rights on retirement, net[(1)]	248	256	37.7	37.7	237	244	37.7	37.7
Other securities[(1)(3)]	-	-	37.7	37.7	-	-	37.7	37.7
Adjustment of depreciable non-monetary assets[(2)]	(32)	(27)	37.7	37.7	(33)	(28)	37.7	37.7
Other - from monetary items[(1)(2)(4)]	21	50	37.7	37.7	21	50	37.7	37.7
Other - from non-monetary items, net[(1)(2)]	(2)	(1)	37.7	37.7	(3)	(3)	37.7	37.7
Total deferred taxes	765	820	37.7	37.7	713	771	37.7	37.7
Deferred taxes include:								
(1) Deferred tax assets included under Other Assets	819	856	37.7	37.7	767	807	37.7	37.7
(2) Deferred taxes payable included under Other Liabilities	(54)	(36)	37.7	37.7	(54)	(36)	37.7	37.7
Deferred taxes, net	765	820	37.7	37.7	713	771	37.7	37.7

(3) Changes in this item with respect to a loss amounting to NIS 3 million due to adjustment of fair value of securities available for sale (previous year - gain amounting to NIS 10 million) were charged to a separate item in shareholders' equity.

(4) Changes in this item amounting to NIS 8 million due to net gain from cash flow hedges (previous year - NIS 1 million) were charged to a separate item in shareholders' equity.

Note 29 - Earnings per Ordinary Share

	Consolidated		
	For the year ended December 31,		
	Reported amounts (NIS in millions)		
	2014	2013	2012
Net profit used to calculate earnings per share:			
Basic earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	1,083	1,078	1,076
Diluted earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	1,083	1,078	1,076
Earnings per share:			
Basic earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	4.70	4.72	4.77
Diluted earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	4.68	4.69	4.74
Weighted average number of shares (1)			
Weighted average number of ordinary shares used to calculate basic earnings	230,281,306	228,260,414	225,483,132
Weighted average number of ordinary shares used to calculate diluted earnings	231,613,393	229,842,592	226,997,469

(1) Excludes 2,500,000 shares bought back by the Bank. For details see Note 13.D.

(2) Weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options arising from share-based payment transactions. For details see Note 16.A.

Note 30 - Operating Segments and Geographic Regions - Consolidated

Bank Group operating segments

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

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

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

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the 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 six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness.

Note 30 - Operating Segments and Geographic Regions - Consolidated (continued)

Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

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

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

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

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to its operations , against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.

Note 30 - Operating Segments and Geographic Regions - Consolidated (continued)

- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to Financial Management.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commission and other revenues are specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

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

Note 30 - Operating Segments and Geographic Regions - Consolidated (continued)
For the year ended December 31, 2014

Reported amounts (NIS in millions)

B. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	2,969	1	495	173	509	(772)	3,375
Inter-segment	(1,076)	62	22	(12)	235	769	-
Total interest revenues, net	1,893	63	517	161	744	(3)	3,375
Non-interest financing revenues	6	1	-	1	25	140	173
Commissions and other revenues	719	62	233	45	241	139	1,439
Total revenues	2,618	126	750	207	1,010	276	4,987
Expenses with respect to credit losses	94	3	98	(10)	(3)	(9)	173
Operating and other expenses							
From outside operating segments	1,824	80	527	55	219	327	3,032
Inter-segment	(115)	4	(54)	59	89	17	-
Other operating expenses - total	1,709	84	473	114	308	344	3,032
Pre-tax profit	815	39	179	103	705	(59)	1,782
Provision for taxes on profit	309	15	68	38	266	(23)	673
After-tax profit	506	24	111	65	439	(36)	1,109
Share in net profits of associates, after tax	-	-	-	-	-	5	5
Net profit:							
Before attribution to non-controlling interest	506	24	111	65	439	(31)	1,114
Attributable to non-controlling interest	(31)	-	-	-	-	-	(31)
Attributable to equity holders of the banking corporation	475	24	111	65	439	(31)	1,083
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	8.4%	31.8%	21.5%	15.4%	12.8%	-	10.4%
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	65,395	8,584	10,645	4,110	45,962	43,320	178,016
Average balance of risk assets (1)	65,370	840	5,734	4,700	38,162	5,245	120,051
Average balance of provident and mutual fund assets	-	-	-	-	-	87,171	87,171
Average balance of securities (2)	37,945	6,281	9,203	4,099	69,765	77,576	204,869
Average balance of loans to the public	107,354	955	8,266	4,365	23,470	-	144,410
Average balance of deposits from the public	62,518	7,973	10,233	4,046	45,861	16,241	146,872
Loans to the public, net (end balance)	112,043	1,051	9,018	4,240	21,217	-	147,569
Deposits from the public (end balance)	65,701	9,090	11,068	4,546	47,117	14,857	152,379
Average balance of other assets managed(3)	10,252	6	167	293	631	-	11,349

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business 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 presented balance of client activities includes, in addition to balance of securities of mutual funds as aforesaid, the value of participation units in said mutual funds held by Bank clients.

(3) Includes:
- Loan balances secured by deposits whose return to depositors depends on collection of the loan balance. For these balances, the Bank earns margin or commission revenues.
- Other loans managed by the Bank.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued
For the year ended December 31, 2014

Reported amounts (NIS in millions)

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

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consoli-dated
Margin from credit granting operations	1,526	24	443	145	615	-	2,753
Margin from receiving deposits	313	39	47	13	95	-	507
Other	54	-	27	3	34	(3)	115
Total interest revenues, net	1,893	63	517	161	744	(3)	3,375

D. Information about geographic regions[(1)]

	Revenues for the year ended December 31, 2014[(2)]	Net profit for the year ended December 31, 2014	Total assets as of December 31, 2014
Israel	4,859	1,049	191,382
Outside of Israel	128	34	7,182
Total consolidated	4,987	1,083	198,564

(1) Revenues and assets by geographic regions were allocated based on Group office locations.
(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 30 - Operating Segments and Geographic Regions - Consolidated (continued)
For the year ended December 31, 2013

Reported amounts (NIS in millions)

B. Information regarding operating segments[1]

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,689	(15)	444	190	419	(1,263)	3,464
Inter-segment	(1,825)	77	22	(24)	299	1,451	-
Total interest revenues, net	1,864	62	466	166	718	188	3,464
Non-interest financing revenues	7	2	-	1	32	(28)	14
Commissions and other revenues	771	54	248	59	219	134	1,485
Total revenues	2,642	118	714	226	969	294	4,963
Expenses with respect to credit losses	239	-	72	(5)	(17)	(1)	288
Operating and other expenses							
From outside operating segments	1,802	76	501	68	211	299	2,957
Inter-segment	(117)	14	(52)	64	79	12	-
Other operating expenses - total	1,685	90	449	132	290	311	2,957
Pre-tax profit	718	28	193	99	696	(16)	1,718
Provision for taxes on profit	247	10	67	34	240	(6)	592
After-tax profit	471	18	126	65	456	(10)	1,126
Share in net profits of associates, after tax	-	-	-	-	-	(4)	(4)
Net profit:							
Before attribution to non-controlling interest	471	18	126	65	456	(14)	1,122
Attributable to non-controlling interest	(44)	-	-	-	-	-	(44)
Attributable to equity holders of the banking corporation	427	18	126	65	456	(14)	1,078
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	9.0%	19.8%	26.1%	14.4%	14.1%	-	11.5%
Average asset balance	98,654	1,814	7,511	4,689	25,426	30,665	168,759
Of which: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	62,681	7,002	8,862	3,505	38,412	38,490	158,952
Average balance of risk assets[2]	57,431	1,007	5,363	5,028	36,110	5,366	110,305
Average balance of provident and mutual fund assets	-	-	-	-	-	82,642	82,642
Average balance of securities [3]	31,406	8,604	6,420	3,806	62,203	61,525	173,964
Average balance of loans to the public	97,647	1,217	7,403	4,653	23,735	-	134,655
Average balance of deposits from the public	59,500	6,444	8,767	3,485	38,285	17,010	133,491
Loans to the public, net (end balance)	103,268	956	7,667	4,517	22,157	-	138,565
Deposits from the public (end balance)	60,793	7,027	9,517	3,408	43,467	17,032	141,244
Average balance of other assets managed[4]	10,861	6	198	284	230	-	11,579

(1) Reclassified.
(2) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business 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 presented balance of client activities includes, in addition to balance of securities of mutual funds as aforesaid, the value of participation units in said mutual funds held by Bank clients.
(4) Includes:
- Loan balances secured by deposits whose return to depositors depends on collection of the loan balance. For these balances, the Bank earns margin or commission revenues.
- Other loans managed by the Bank.

Note 30 - Operating Segments and Geographic Regions - Consolidated (continued)
For the year ended December 31, 2013

Reported amounts (NIS in millions)

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

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,340	30	377	143	582	-	2,472
Margin from receiving deposits	455	30	63	16	96	-	660
Other	69	2	26	7	40	188	332
Total interest revenues, net	1,864	62	466	166	718	188	3,464

D. Information about geographic regions(1)

	Revenues for the year ended December 31, 2013(2)	Net profit for the year ended December 31, 2013	Total assets as of December 31, 2013
Israel	4,843	1,047	172,820
Outside of Israel	120	31	6,793
Total consolidated	4,963	1,078	179,613

(1) Revenues and assets by geographic regions were allocated based on Group office locations.
(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 30 - Operating Segments and Geographic Regions - Consolidated (continued)
For the year ended December 31, 2012

Reported amounts (NIS in millions)

B. Information on operating segments

	House-holds	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consoli-dated
Interest revenues, net:							
From outside operating segments	3,274	(12)	316	198	331	(893)	3,214
Inter-segment	(1,466)	83	133	(27)	300	977	-
Total interest revenues, net	1,808	71	449	171	631	84	3,214
Non-interest financing revenues	7	1	1	1	63	22	95
Commissions and other revenues	778	55	238	60	216	131	1,478
Total revenues	2,593	127	688	232	910	237	4,787
Expenses with respect to credit losses	65	(1)	36	8	167	1	276
Operating and other expenses							
From outside operating segments	1,717	78	459	66	217	249	2,786
Inter-segment	(119)	5	(53)	68	86	13	-
Other operating expenses - total	1,598	83	406	134	303	262	2,786
Pre-tax profit	930	45	246	90	440	(26)	1,725
Provision for taxes on profit	323	16	86	31	152	(9)	599
After-tax profit	607	29	160	59	288	(17)	1,126
Share in net profits of associates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	607	29	160	59	288	(17)	1,126
Attributable to non-controlling interest	(50)	-	-	-	-	-	(50)
Attributable to equity holders of the banking corporation	557	29	160	59	288	(17)	1,076
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	14.2%	30.4%	38.8%	14.3%	9.9%	-	13.1%
Average asset balance	89,157	2,274	7,179	4,704	26,919	24,810	155,043
Of which: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	58,446	6,958	8,280	3,545	31,702	35,811	144,742
Average balance of risk assets(1)	51,763	1,191	5,160	5,172	36,323	5,476	105,085
Average balance of provident and mutual fund assets	-	-	-	-	-	73,821	73,821
Average balance of securities (3)	26,895	7,767	5,606	3,633	59,957	42,271	146,129
Loans to the public, net (end balance)	93,013	1,178	6,860	4,679	22,921	-	128,651
Deposits from the public (end balance)	58,645	7,077	8,159	3,358	33,934	16,908	128,081
Average balance of other assets managed(2)(4)	11,370	2	177	212	253	-	12,014

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(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 presented balance of client activities includes, in addition to balance of securities of mutual funds as aforesaid, the value of participation units in said mutual funds held by Bank clients.
(4) Includes:
- Loan balances secured by deposits whose return to depositors depends on collection of the loan balance. For these balances, the Bank earns margin or commission revenues.
- Other loans managed by the Bank.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued
For the year ended December 31, 2012
Reported amounts (NIS in millions)

C. 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 manage-ment	Total consoli-dated
Margin from credit granting operations	(1)1,241	28	344	144	552	(1)-	2,309
Margin from receiving deposits	530	42	80	24	70	-	746
Other	37	1	25	3	9	84	159
Total interest revenues, net	1,808	71	449	171	631	84	3,214

(1) Reclassified.

D. Information about geographic regions[1]

	Revenues for the year ended December 31, 2012[2]	Net profit for the year ended December 31, 2012	Total assets as of December 31, 2012
Israel	4,672	1,054	155,010
Outside of Israel	115	22	7,232
Total consolidated	4,787	1,076	162,242

(1) Revenues and assets by geographic regions were allocated based on Group office locations.
(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 31 - 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	Total	Other comprehensive income attributed to non-controlling interest	Other comprehensive income attributable to equity holders of the banking corporation
Balance as of January 1, 2012	(48)	-	18	(30)	-	(30)
Net change in the period	48	-	(15)	33	3	30
Balance as of January 1, 2013	-	-	3	3	3	-
Net change in the period	12	(3)	-	9	(2)	11
Balance as of January 1, 2014	12	(3)	3	12	1	11
Net change in the period	(7)	4	15	12	(1)	13
Balance as of December 31, 2014	5	1	18	24	-	24

Note 31 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the year ended December 31, 2014		
	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	100	(38)	62
Loss (gain) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(110)	41	(69)
Net change in the period	(10)	3	(7)
Adjustments from translation of financial statements			
Adjustments from translation of financial statements	6	(2)	4
Net change in the period	6	(2)	4
Cash flow hedges			
Net gain (loss) with respect to cash flow hedges	30	(10)	20
Net (gain) loss reclassified to the statement of profit and loss(2)	(7)	2	(5)
Net change in the period	23	(8)	15
Total net change in the period	19	(7)	12
Total net change in the period attributable to non-controlling interest	1	-	1
Total net change in the period attributable to equity holders of the banking corporation	20	(7)	13

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 23.A.2.

(2) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 22.C.

						For the year ended December 31,
			2013			2012
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	73	(29)	44	178	(62)	116
	(51)	19	(32)	(105)	37	(68)
	22	(10)	12	73	(25)	48
	(3)	-	(3)	-	-	-
	(3)	-	(3)	-	-	-
	5	(2)	3	(22)	7	(15)
	(5)	2	(3)	-	-	-
	-	-	-	(22)	7	(15)
	19	(10)	9	51	(18)	33
	3	(1)	2	(4)	1	(3)
	22	(11)	11	47	(17)	30

Note 32 - Information Based on Nominal Data - the Bank

(NIS in millions)

	As of December 31,	
	2014	2013
Total assets	186,219	167,486
Total liabilities	175,395	157,831
Total shareholders' equity	10,824	9,655

	For the year ended December 31,		
	2014	2013	2012
Nominal net profit	1,096	1,082	1,083

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