Condensed Financial Statements as of September 30, 2014

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Additional disclosures with regard to composition of capital under Basel III, Pillar 3 are provided on the Bank website: www.mizrahi-tefahot.co.il/en >> Financial reports

Condensed Board of Directors' Report for Financial Statements as of September 30, 2014

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Condensed Board of Directors' Report for Financial Statements as of September 30, 2014

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 17, 2014, it was resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of September 30, 2014.

The financial statements are compiled in accordance with generally accepted accounting policies in Israel for interim financial reporting, and in accordance with directives and guidance from the Supervisor of Banks.

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

Developments in Israel's economy in the first nine months of 2014

Real Developments

Macro-economic data published to date for the first half of 2014 indicate more moderate growth in economic activity:

In the second quarter of 2014, GDP grew at an annualized 1.9%, compared to 2.9% in the previous quarter and to 3.2% in all of 2013. The more moderate GDP growth in the second quarter was due to weaker exports and investments in fixed assets. The Bank of Israel Composite Index increased in the third quarter of 2014 at an annualized rate of 1.1%, compared to an annualized increase of 1.2% in the second quarter of 2014 and compared to an increase of 3.3% in all of 2013.

Export of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the third quarter of 2014 by 14.6% compared to the previous quarter, following a decrease of 10.6% in the second quarter of this year. Import of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) decreased in the third quarter of 2014 by 5.2%, after a decrease by 3.1% in the second quarter of 2014. The trade deficit in the first nine months of 2014 amounted to USD 11.1 billion, similar to the corresponding period last year.

Trend data for the economic sector turnover index for the eight months ended August 2014 indicate an annualized decrease of 3.9%, reflecting more moderate economic growth. The growth rates of the retail chain turnover index and the credit card purchase index indicate moderation in local demand. Lower industrial output continued, primarily due to the negative effect of lower high-tech output. In June, the purchasing manager index decreased to 48.9 points, indicating a decrease in activity - following a recovery in the first five months of 2014. The decrease in this index continued in July and August, as well - primarily due to the military ”Operation Protective Edge”. However, the index rebounded in September to reach 50 points.

The unemployment rate trended higher in the first nine months of 2014, in September 2014, the unemployment rate was 6.5%, compared to 5.9% in December 2013. Concurrently, participation in the labor force was higher at 64.4%, compared to 63.6%, respectively.

During ”Operation Protective Edge”, economic activity in the South and Central regions suffered. The cost of fighting and compensation is estimated at NIS 7-8 billion. According to estimates by the Ministry of Finance, business shut-downs and lower economic activity in the tourism and restaurant sector and in small businesses, resulted in a loss of GDP estimated at NIS 4-5 billion (or 0.4% of GDP).

Inflation and exchange rates

In the first nine months of 2014, the Consumer Price Index decreased by 0.3%, compared to an increase of 1.8% in the corresponding period last year. The CPI was primarily impacted by lower prices of fruit and vegetable, food, clothing and footwear offset by higher prices of housing service. In the twelve months ended September 2014, the CPI decreased by 0.3%.

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

	September 30, 2014	December 31, 2013	Change in %
Exchange rate of:			
USD (in NIS)	3.695	3.471	6.5
EUR (in NIS)	4.649	4.782	(2.8)

On November 13, 2014, the USD/NIS exchange rate was 3.812 - a 9.8% devaluation since the end of 2013. The EUR/NIS exchange rate on that date was 4.749 - a 0.7% revaluation since the end of 2013.

In support of the exchange rate, the Bank of Israel purchased foreign currency valued at USD 6.1 million in the first nine months of 2014, after purchasing USD 5.3 billion in all of 2013 (of which: foreign currency purchasing to offset the effect on exchange rates of natural gas production from the Tamar reservoir, amounting to USD 2.6 billion in the first nine months of 2014, compared to USD 2.1 billion in all of 2013).

Monetary and fiscal policies

In the first nine months of 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 the first nine months of 2014, the government budget recorded a NIS 10.5 billion cumulative deficit, compared to a NIS 14.0 billion cumulative deficit in the corresponding period last year. In the twelve months ended September 2014, the cumulative deficit as a percentage of GDP was 2.7%, compared to 3.2% in all of 2013. Tax revenues increased in the first nine months of 2014 by 6.6% over the year-ago period, while Government expenditure increased by 2.9% in the same period.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first eight months of 2014 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 24,030 apartments, a decrease of 20.8% over the corresponding period last year and a decrease of 16.2% over the corresponding period in 2012. This is apparently 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, demand for housing was lower in all regions. The most significant drop in demand was in Tel Aviv - 28.7%. Based on the average pace of sales in the six months ended August 2014, the housing inventory would account for 14.5 months' sales - compared to 12.1 months in December 2013. In the first nine months of 2014, housing loan origination to the public amounted to NIS 38.6 billion, a decrease of 0.8% compared to the corresponding period last year. Loan origination was primarily impacted by a decrease of 2.1% in the number of housing loans originated.

According to data from the Central Bureau of Statistics, after faster increase in housing prices, year-over-year, from 7.1% in January 2014 to 9.0% in April 2014, the increase in housing prices moderated as from May, to 5.0% in July 2014.

Capital market

In the third quarter of 2014, the upward trend seen in equity markets prior to the second quarter returned, with leading equity benchmarks trending higher.

Here is information about returns in the equity market (in %):

CPI	Return in third quarter of 2014	Return in the first nine months of 2014	Return in all of 2013
Tel Aviv 25	5.1	9.7	12.1
Tel Aviv 100	4.2	8.1	15.1
Real Estate 15	4.5	7.4	26.0
Yeter 50	3.1	2.2	35.6
Finance 15	3.4	0.9	18.8
Tel Aviv Banking	7.1	4.1	16.3

Average daily trading volume in equities and convertible securities decreased further in the third quarter of 2014 to NIS 1.067 billion, compared to NIS 1.103 billion in the second quarter of this year and an average quarterly volume of NIS 1.203 billion over the past four quarters. Total equity issuance in the third quarter of 2014 amounted to NIS 1.4 billion, compared to NIS 1.8 billion in the second quarter of 2014 and an average quarterly volume of NIS 2.4 billion over the past four quarters.

Debenture market – the debenture market was positive in the third quarter of 2014. This was in continuation of the trend over the previous quarters.

Here is information about returns in the debenture market (in %):

CPI	Return in third quarter of 2014	Return in the first nine months of 2014	Return in all of 2013
Debentures - general	1.8	5.8	5.4
Government debentures - CPI-linked	1.6	6.5	3.0
Debentures - non-linked	2.4	6.5	4.0
Tel Bond 20	1.3	3.9	5.9
Tel Bond 40	1.2	3.0	6.9

The yield to maturity spread on corporate debentures over Government debentures continued to increase, starting late in the second quarter of 2014. Debentures rated AA traded at the end of the third quarter of 2014 at an average spread of 0.98 percentage points, compared to 0.92 percentage points at the end of the second quarter and 0.8 percentage points at the end of 2013. The yield to maturity spread on debentures rated A over Government debentures also expanded to 2.19 percentage points at the end of the third quarter, compared to 1.98 percentage points at the end of the second quarter and to 1.96 percentage points at the end of 2013.

Overall, in the third quarter of 2014 the business sector issued debentures valued at NIS 17.0 billion to the public and to institutional investors, following issues valued at NIS 19.7 billion in the second quarter of 2014 and average quarterly issues of NIS 13.8 billion over the past four quarters.

Average daily trading volume in debentures increased in the third quarter of 2014 to NIS 4.3 billion, compared to NIS 4.1 billion in the second quarter of 2014 and an average quarterly trading volume of NIS 4.1 billion over the past four quarters.

Global economy

The US GDP expanded in the second quarter of 2014 at an annualized 4.6%, after contracting in the previous quarter at an annualized 2.1%, primarily due to weather impact in that period. Growth was positively impacted by a sharp increase in exports and investments and by improvement in private consumption. However, as from March 2014, economic indicators in the USA were mostly positive, with continued improvement in industrial output, in retail, in private consumption, in the labor market and in expectation surveys. The US Federal Reserve has ended its purchase program; Fed interest rates in the USA are expected to start rising in the third quarter of 2015.

In the first nine months of 2014, unemployment in the Euro Zone decreased moderately, from 11.8% in December 2013 to 11.5% in August 2014. The annualized inflation rate for the twelve months ended September 2014 was lower at 0.3%. The retail output benchmark improved slightly in 2014, while the industrial output benchmark were unimproved. Consumer confidence index and expectation surveys of industrialists, which indicated positive expectations in the first half of the year, started to indicate a more pessimistic outlook in the third quarter. Against the back-drop of slow recovery of the Euro Zone economy and the low inflation, the ECB announced it would take several monetary steps to stimulate the European credit market: Interest in the Euro Zone was lowered by 0.1%, to 0.15% with negative interest at (-0.1%) for short-term deposits by commercial banks with the central bank; lower interest for loans taken by banks from the central bank, by 0.35 percentage points to a record low of 0.4%; a TLTRO fund (Targeted Longer-Term Refinancing Operation) of EUR 400 billion to provide credit to households (excluding mortgages) and to the business sector; purchase of asset-backed securities (ABS) from the banking system; the ECB further announced that these monetary steps would not be sterilized, so that the monetary base is expected to expand.

In the third quarter of 2014, the growth rate in China was lower, with GDP growing in the first quarter at 7.3%, compared to 7.5% in the previous quarter and 7.8% in the year-ago period. The annualized inflation rate in China for the twelve months ended September 2014 was lower at only 1.6%. In the third quarter of 2014, improvement was recorded in foreign trade, but industrial output and retail sales were weaker. The business confidence and purchasing manager confidence benchmarks were stable.

Key Data for Bank Group

Evolution of revenues and expenses

	For the quarter ended				
	30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013
					NIS in millions
Profit and Profitability					
Interest revenues, net	(1)893	(1)923	(1)713	784	1,005
Non-interest financing revenues (expenses)	51	(2)	81	23	(90)
Commissions and other revenues	(1)354	(1)345	(1)357	380	364
Total revenues	**1,298**	**1,266**	**1,151**	**1,187**	**1,279**
Expenses with respect to credit losses	5	23	(5)	5	68
Operating and other expenses	792	747	727	779	755
Profit before provision for taxes	501	496	429	403	456
Provision for taxes	189	187	158	140	143
Net profit (2)	**304**	**302**	**264**	**252**	**301**

	For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2013
Profit and Profitability			NIS in millions
Interest revenues, net	(1)2,529	2,680	3,464
Non-interest financing revenues (expenses)	130	(9)	14
Commissions and other revenues	(1)1,056	1,105	1,485
Total revenues	**3,715**	**3,776**	**4,963**
Expenses with respect to credit losses	23	283	288
Operating and other expenses	2,266	2,178	2,957
Profit before provision for taxes	1,426	1,315	1,718
Provision for taxes	534	452	592
Net profit (2)	**870**	**826**	**1,078**

	30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013
					NIS in millions
Balance sheet - key items					
Balance sheet total	195,141	188,158	184,754	179,613	173,332
Loans to the public, net	146,699	143,353	141,061	138,565	136,747
Securities	12,579	9,744	6,519	7,000	7,431
Deposits from the public	150,648	148,063	145,701	141,244	135,863
Debentures and subordinated notes	21,059	19,120	17,887	16,443	16,542
Equity (2)	10,779	10,418	10,130	9,852	9,574

(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.

Evolution of revenues and expenses - financial ratios

	For the quarter ended				
	30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013
Key financial ratios (in percent)					
Net profit return on equity[(1)]	12.0	12.3	11.0	10.8	13.3
Deposits from the public to loans to the public, net	102.7	103.3	103.3	101.9	99.4
Capital to total assets	5.52	5.54	5.48	5.49	5.52
Ratio of Tier I capital to risk elements	[(2)]9.01	[(2)]9.00	[(2)]8.87	9.01	8.84
Total ratio of capital to risk elements	[(2)]12.94	[(2)]13.05	[(2)]12.97	13.04	12.96
Cost income ratio [(3)]	61.0	59.0	63.2	65.6	59.0
Expenses with respect to credit losses to loans to the public, net for the period [(1)]	0.01	0.06	(0.01)	0.01	0.20
Basic net earnings per share	1.32	1.31	1.15	1.10	1.32
Diluted net earnings per share	1.31	1.30	1.14	1.09	1.31

	For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2013
Key financial ratios (in percent)			
Net profit return on equity [(1)]	11.4	12.1	11.5
Cost income ratio [(3)]	61.0	57.7	59.6
Expenses with respect to credit losses to loans to the public, net for the period [(1)]	0.02	0.28	0.21
Basic net earnings per share	3.78	3.62	4.72
Diluted net earnings per share	3.76	3.60	4.69

(1) Calculated on annualized basis.
(2) In conformity with Basel III directives
(3) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

Forward-Looking Information

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

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

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

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on Bank of Israel data and on various forecasts and assessments on various topics with regard to the future.

Profit and Profitability

Group net profit in the third quarter of 2014 amounted to NIS 304 million, compared to NIS 301 million in the corresponding period last year. This profit reflects an annualized return on capital of 12.0%, compared to 13.3% in the corresponding period last year, given the increase in the Bank's capital base in this period by NIS 1.2 billion.

Net profit for the Group in the first nine months of 2014 amounted to NIS 870 million, compared to NIS 826 million in the corresponding period last year – an increase of 5.3%. This profit reflects a 11.4% annualized return on equity (with a capital base larger by NIS 1.2 billion, as noted above), compared to 12.1% in the corresponding period last year and 11.5% for all of 2013.

The following major factors affected Group profit in the first nine months of 2014 over the corresponding period last year:

- 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 the first nine months of 2014, increased by NIS 116 million, or 5.0%, over the corresponding period last year. The increase in current operations was achieved despite further lowering of the Bank of Israel interest rate, which affects the Bank's margins. See also the analysis of the evolution of financing revenues, below. The Bank of Israel interest rate at the end of the third quarter of 2014 reached 0.25%, compared to 1.25% in the third quarter of 2013.
  The Group's operating results in financing items were also impacted by the minuscule increase in the known CPI, by only 0.1%, in the first nine months of 2014, compared to an increase of 2.0% in the corresponding period last year. See also the analysis of evolution of financing revenues, below.

- Expenses with respect to credit losses in the first nine months of 2014 decreased by NIS 260 million compared to the corresponding period last year. In the first nine months of 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. In addition, collection of previously written-off debt and reduction of impaired debt in the Groups loan portfolio continued.

- Commissions and other revenues, net of the decrease due to application of FAS 91(1), increased in the first nine months of 2014 by NIS 18 million over the corresponding period last year. The increase in commissions and other revenues results from continued growth in business volume and despite the negative effect of various regulatory directives. For more details, see the chapter on Legislation and Supervision of Bank Group Operations below.

- Operating and other expenses increased in the first nine months of 2014 by NIS 88 million, or 4.0%, over the corresponding period last year.

- The rate of provision for taxes on income in the first nine months of 2014 was 37.4%, compared to 34.4% in the corresponding period last year - primarily due to an increase in the statutory tax rate.

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(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.

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues [(1)] from current operations in the third quarter of 2014 amounted to NIS 833 million, as described below, compared to NIS 788 million in the corresponding period last year, an increase of 5.7%. Net interest revenues and non-interest financing revenues [(1)] in the first nine months of 2014 amounted to NIS 2,446 million, as described below, compared to NIS 2,330 million in the corresponding period last year, an increase of 5.0%.

Net interest revenues and non-interest financing revenues [(1)] in the third quarter of 2014 amounted to NIS 944 million, as described on these financial statements, compared to NIS 915 million in the corresponding period last year, an increase of 3.2%.

Net interest revenues and non-interest financing revenues [(1)] in the first nine months of 2014 amounted to NIS 2,659 million, as described on these financial statements, compared to NIS 2,671 million in the corresponding period last year, a decrease of 0.4%.

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

	Third Quarter			First nine months		
	2014	2013	Change in %	2014	2013	Change in %
Interest revenues, net	893	1,005		2,529	2,680	
Non-interest financing revenues (expenses)[(1)]	51	(90)		130	(9)	
Total financing revenues	**944**	**915**	**3.2**	**2,659**	**2,671**	**(0.4)**
Less:						
Effect of application of FAS 91 [(2)]	33	-		110	-	
Linkage differentials with respect to CPI position	24	96		11	150	
Revenues from collection of interest on troubled debt	16	20		56	56	
Gain from sale of debentures available for sale and gain from debentures held for trading, net	52	7		97	62	
Effect of accounting treatment of derivatives at fair value and others[(3)]	(14)	4		(61)	73	
Total financing revenues from current operations	**833**	**788**	**5.7**	**2,446**	**2,330**	**5.0**

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

(2) 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 the accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

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

				First nine months
Operating segment	2014	2013	Change amount	Change in %
Retail banking:				
Mortgages	567	506	61	12.1
Households[(1)]	858	887	(29)	(3.3)
Small business	381	350	31	8.9
Total	**1,806**	**1,743**	**63**	**3.6**
Private banking[(1)]	46	50	(4)	(8.0)
Commercial banking	123	125	(2)	(1.6)
Business banking	591	559	32	5.7
Financial management	93	194	(101)	-
Total	**2,659**	**2,671**	**(12)**	**(0.4)**

				Third Quarter
Operating segment	2014	2013	Change amount	Change in %
Retail banking:				
Mortgages	194	177	17	9.6
Households[(1)]	285	296	(11)	(3.7)
Small business	131	118	13	11.0
Total	**610**	**591**	**19**	**3.2**
Private banking[(1)]	17	15	2	13.3
Commercial banking	42	41	1	2.4
Business banking	193	192	1	0.5
Financial management	82	76	6	7.9
Total	**944**	**915**	**29**	**3.2**

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

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

	Third Quarter			First nine months		
Linkage segment	2014	2013	Change in %	2014	2013	Change in %
Israeli currency - non-linked	106,099	91,277	16.2	103,419	87,687	17.9
Israeli currency - linked to the CPI	54,423	52,460	3.7	53,792	51,147	5.2
Foreign currency	13,404	13,394	0.1	13,319	14,082	(5.4)
Total	**173,926**	**157,131**	**10.7**	**170,530**	**152,916**	**11.5**

The increase in the average balance of interest-bearing assets in the NIS-denominated segment is primarily due to higher excess liquidity and higher retail loans attributed to this segment. The increase in retail loans is also the reason for the increase in the average balance of assets in the CPI-linked segment. The decrease in the average balance of interest-bearing assets in the foreign currency segment compared to the corresponding period last year, is primarily due to diversion of uses to other linkage 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:

	Third Quarter		First nine months	
Linkage segment	2014	2013	2014	2013
Israeli currency - non-linked	2.33	2.12	2.34	2.35
Israeli currency - linked to the CPI	0.31	0.39	0.18	0.29
Foreign currency	1.23	2.39	1.40	1.97
Total	**1.81**	**2.11**	**1.72**	**1.94**

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

The decrease in all linkage segments in the first nine months of 2014 is due to interest margin erosion due to the low interest environment.

The interest spread in the non-linked NIS segment was positively impacted by application of FAS 91, primarily with regard to early repayment commissions. For details, see Note 1.C.1. to the financial statements.

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

Expenses with respect to credit losses for the Group amounted to NIS 23 million in the first nine months of 2014, or an annualized rate of 0.02% of total loans to the public, net, compared with NIS 283 million, or an annualized rate of 0.28% of total loans to the public, net in the corresponding period last year - for a decrease of NIS 260 million in total.

Expenses with respect to credit losses for the Group amounted to NIS 5 million in the third quarter of 2014, or an annualized rate of 0.01% of total loans to the public, net, compared with NIS 68 million, or an annualized rate of 0.20% of total loans to the public, net in the corresponding period last year - a total decrease of NIS 63 million.

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. In addition, collection of previously written-off debt and reduction of impaired debt in the Groups loan portfolio continued.

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

	Third Quarter		First nine months	
	2014	2013	2014	2013
Provision for credit losses on individual basis (including accounting write-offs)	(20)	26	(29)	74
Provision for credit losses on Group basis:				
By extent of arrears	(3)	5	(10)	7
Other	28	37	62	(1) 202
Total expenses with respect to credit losses	**5**	**68**	**23**	**283**
Expense with respect to credit losses as percentage of total loans to the public (annualized):	**0.01%**	**0.20%**	**0.02%**	**0.28%**
Of which: With respect to commercial loans other than housing loans	**0.01%**	**0.43%**	**0.03%**	**0.19%**
Of which: With respect to housing loans	**0.02%**	**0.07%**	**0.02%**	**0.33%**

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

	First nine months	
Operating segment	2014	2013
Retail banking:		
Mortgages	11	(1)214
Households	26	35
Small business	(2)71	48
Total	**108**	**297**
Private banking	2	(2)
Commercial banking	(11)	(9)
Business banking	(3)(70)	-
Financial management	(6)	(3)
Total	**23**	**283**

(1) Includes NIS 191 million due to application of the Supervisor of Banks' directives with regard to housing loans.
(2) The increase in the provision for credit losses in this segment is attributed, *inter alia*, to the increase in the group-based provision due to significant increase in borrowing.
(3) The decrease in provision for credit losses in this segment was primarily due to collection of debt previously written-off.

Net interest revenues after expenses with respect to credit losses in the first nine months of 2014 amounted to NIS 2,506 million, compared to NIS 2,397 million in the corresponding period last year - an increase of 4.5% - and with non-interest financing revenues - an increase of 10.4%. Net interest revenues after expenses with respect to credit losses in the third quarter of 2014 amounted to NIS 888 million, compared to NIS 937 million in the corresponding period last year - a decrease of 5.2% - and with non-interest financing revenues - an increase of 10.9%. See above the analysis of evolution of financing revenues from current operations and the analysis of expenses with respect to credit losses.

Non-interest expenses for the Group amounted to NIS 1,186 million in the first nine months of 2014, compared with NIS 1,096 million in the corresponding period last year - a year-over-year increase of 8.2%. Non-interest expenses for the Group amounted to NIS 405 million in the third quarter of 2014, compared with NIS 274 million in the corresponding period last year - a year-over-year increase of 47.8%. See the explanation below, including the impact of non-interest financing revenues and the impact of application of FAS 91.

Non-interest financing revenues (expenses) in the first nine months of 2014 amounted to revenues of NIS 130 million, compared to expenses of NIS 9 million in the corresponding period last year. Non-interest financing revenues (expenses) for the Group in the third quarter of 2014 amounted to revenues of NIS 51 million, compared to expenses of NIS 90 million in the corresponding period last year. This item includes, inter alia, the effect of fair value and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding expense (revenue) is recognized as interest revenues, in conformity with accounting rules, as well as gain from debentures. See the analysis of Financing revenues from current operations above.

Commission revenues net of the decrease due to application of FAS 91(1) in the third quarter of 2014 amounted to NIS 367 million, compared to NIS 356 million in the corresponding period last year, an increase of 3.1%.
The Bank continues to grow its business, which minimizes the regulatory impact on commission items due to regulatory impact.
For more details see chapter “Legislation and supervision of Bank Group operations” below.

Commission revenues net of the decrease due to application of FAS 91(1) in the first nine months of 2014 amounted to NIS 1,098 million, compared to NIS 1,084 million in the corresponding period last year, an increase of 1.3%.
Commissions in the first nine months of 2014, as stated in these financial statements, after the effect of application of FAS 91(1), amounted to NIS 1,031 million. Commissions in the third quarter of 2014, as stated in these financial statements, after the effect of application of FAS 91(1), amounted to NIS 345 million.
Other revenues amounted to NIS 25 million in the first nine months of 2014, compared with NIS 21 million in the corresponding period last year - an increase of 19.0%.

(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.

Other revenues amounted to NIS 9 million in the third quarter of 2014, compared with NIS 8 million in the corresponding period last year.

Operating and other expenses amounted to NIS 2,266 million in the first nine months of 2014, compared with NIS 2,178 million in the corresponding period last year - an increase of 4.0%. Operating and other expenses amounted to NIS 792 million in the third quarter of 2014, compared with NIS 755 million in the corresponding period last year - a year-over-year increase of 4.9% - see explanation below.

Payroll and associated expenses amounted to NIS 1,416 million in the first nine months of 2014, compared with NIS 1,345 million in the corresponding period last year - an increase of 5.3%, primarily attributed to expenses recognized for a new stock option plan. For more information about the new stock option plan, see chapter "Significant events in the Bank Group's business" below.

Payroll and associated expenses amounted to NIS 498 million in the third quarter of 2014, compared with NIS 471 million in the corresponding period last year - an increase of 5.7%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 529 million in the first nine months of 2014, compared with NIS 510 million in the corresponding period last year - an increase of 3.7%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 181 million in the third quarter of 2014, compared with NIS 172 million in the corresponding period last year – an increase of 5.2%. The increase in maintenance and depreciation expenses is attributed to further expansion of the branch network.

Other expenses in the first nine months of 2014, amounted to NIS 321 million compared with NIS 323 million in the corresponding period last year - a decrease of NIS 2 million. Other expenses for the Group amounted to NIS 113 million in the third quarter of 2014, compared with NIS 112 million in the corresponding period last year - an increase of NIS 1 million.

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

	First nine months		All of
	2014	2013	2013
Cost-Income Ratio(1)	61.0	57.7	59.6

	2014			2013			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	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 before expenses with respect to credit losses.

Pre-tax profit for the Group amounted to NIS 1,426 million in the first nine months of 2014, compared with NIS 1,315 million in the corresponding period last year - an increase of 8.4%. Pre-tax profit for the Group in the third quarter of 2014 amounted to NIS 501 million, compared to NIS 456 million in the corresponding period last year – an increase of 9.9%.

The provision for taxes amounted to NIS 534 million in the first nine months of 2014, compared with NIS 452 million in the corresponding period last year - an increase of 18.1%. The provision for taxes in the third quarter of 2014 amounted to NIS 189 million, compared to NIS 143 million in the corresponding period last year – an increase of 32.2%.
The provision for taxes on pre-tax profit in the first nine months of 2014 was at 37.4%, compared to 34.4% in the corresponding period last year, primarily due to increase in the statutory tax rate.

The Bank's share of after-tax profit of associates in the first nine months of 2014 amounted to NIS 6 million. The Bank had no after-tax profit from associates in the corresponding period last year. The Bank's share of after-tax profit of associates in the third quarter of 2014 amounted to NIS 3 million, compared to a profit amounting to NIS 1 million in the corresponding period last year.

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

	First nine months		All of
	2014	2013	2013
Net return on equity	11.4	12.1	11.5

	2014			2013			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	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)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 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).

Earnings per share

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

	Third Quarter		First nine months		All of
	2014	2013	2014	2013	2013
Basic earnings per share:	1.32	1.32	3.78	3.62	4.72
Diluted earnings per share:	1.31	1.31	3.76	3.60	4.69

Development of balance sheet items

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Balance sheet total	195,141	173,332	179,613	12.6	8.6
Loans to the public, net	146,699	136,747	138,565	7.3	5.9
Deposits from the public	150,648	135,863	141,244	10.9	6.7
Securities	12,579	7,431	7,000	69.3	79.7
Shareholder equity	10,779	9,574	9,852	12.6	9.4

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of September 30, 2014 accounted for 75% of total assets, compared to 77% at the end of 2013. Loans to the public, net for the Group increased in the first nine months of 2014 by NIS 8.1 billion, an increase of 5.9%.

Loans to the public, net - loans to the public, net for the Group increased in the third quarter of 2014 by NIS 3.3 billion, an increase of 2.3%.

The increase in loans to the public, net for the Group in the most recent quarter is attributed to small businesses, households, business banking and mortgages. For more details see Loans to the Public, Net by Segment below.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	81,324	71,817	73,715	13.2	10.3
CPI- linked	53,410	52,609	52,740	1.5	1.3
Foreign currency and foreign currency linked	11,965	12,321	12,110	(2.9)	(1.2)
Total	**146,699**	**136,747**	**138,565**	**7.3**	**5.9**

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
Operating segment	2014	2013	2013	2013	2013
Retail banking:					
Mortgages	90,234	82,239	84,246	9.7	7.1
Households	20,025	19,334	19,022	3.6	5.3
Small business	8,572	7,589	7,667	13.0	11.8
Total retail	**118,831**	**109,162**	**110,935**	**8.9**	**7.1**
Private banking	887	1,002	956	(11.5)	(7.2)
Commercial banking	4,375	4,711	4,517	(7.1)	(3.1)
Business banking	22,606	21,872	22,157	3.4	2.0
Total – business and others	**27,868**	**27,585**	**27,630**	**1.0**	**0.9**
Total	**146,699**	**136,747**	**138,565**	**7.3**	**5.9**

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

Reported amounts	As of September 30, 2014			As of September 30, 2013			As of December 31, 2013		
(NIS in millions)	Credit risk[(1)]			Credit risk[(1)]			Credit risk[(1)]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Troubled credit risk									
Impaired credit risk	906	168	1,074	1,336	245	1,581	1,241	233	1,474
Inferior credit risk	86	-	86	101	-	101	152	-	152
Credit risk under special supervision[(2)]	1,380	139	1,519	1,531	160	1,691	1,385	103	1,488
Total troubled credit risk	**2,372**	**307**	**2,679**	**2,968**	**405**	**3,373**	**2,778**	**336**	**3,114**
Of which: Non-impaired debt in arrears 90 days or longer[(2)]	1,110			1,272			1,134		
2. Non-performing assets[(3)]	**849**			**1,219**			**1,136**		

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

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 1,048 million (as of September 30, 2013 - NIS 1,221 million; as of December 31, 2013 - NIS 1,081 million).

(3) Non-accruing assets.

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

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

	September 30, 2014	September 30, 2013	December 31, 2013
Ratio of impaired loans to the public to total loans to the public	0.6	1.0	0.9
Ratio of impaired loans to the public to total non-housing loans	1.7	2.7	2.5
Ratio of troubled loans to the public to total non-housing loans	2.5	3.5	3.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public(1)(2)	0.7	0.9	0.8
Ratio of provision for credit losses to total loans to the public	1.0	1.1	1.0
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.8	0.7
Ratio of troubled credit risk to total credit risk with respect to the public	1.3	1.8	1.6
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.02	0.29	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.05	0.51	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 September 30, 2014 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	109	763	872
2.	Power and water	687	115	802
3.	Construction and real estate	9	766	775
4.	Construction and real estate	491	193	684
5.	Construction and real estate	-	675	675
6.	Construction and real estate	137	517	654

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

Securities - the balance of investment in securities increased in the first nine months of 2014 by NIS 5.6 billion, and by NIS 5.1 billion compared to the corresponding period last year. The change in total investment in securities is in the context of asset and liability management of the Bank.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	8,243	4,215	4,015	95.6	105.3
CPI- linked	870	240	138	262.5	530.4
Foreign currency and foreign currency linked	3,359	2,866	2,749	17.2	22.2
Non-monetary items	107	110	98	(2.7)	9.2
Total	**12,579**	**7,431**	**7,000**	**69.3**	**79.7**

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

Below are further details of Bank Group investments in securities (NIS in millions):

	Carrying amount as of	
	September 30, 2014	December 31, 2013
Government debentures:		
Government of Israel	11,710	6,340
US Government	366	61
Other	-	21
Total government debentures	**12,076**	**6,422**
Debentures of banks in developed nations:		
UK	91	96
Israel	123	124
Germany	110	103
Other	5	5
	329	**328**
Debentures of financial institutions (other than banks) in developed nations[(1)]:		
USA	-	10
Luxembourg	-	10
Total	**-**	**20**
Total debentures of banks and financial institutions in developed nations	**329**	**348**
Corporate debentures (composition by sector):		
Industry	10	65
Construction	17	24
Power and water	3	17
Public and community services	10	-
Financial services	27	26
Total corporate debentures	**67**	**132**
Shares	**107**	**98**
Total securities	**12,579**	**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 2 to the financial statements.

Deposits from the public - these account for 77% of the total consolidated balance sheet as of September 30, 2014, compared to 79% at the end of 2013. In the first nine months of 2014, deposits from the public with the Bank Group increased by NIS 9.4 billion, or 6.7%.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	95,110	87,262	92,888	9.0	2.4
CPI- linked	20,528	21,471	21,439	(4.4)	(4.2)
Foreign currency and foreign currency linked	35,010	27,130	26,917	29.0	30.1
Total	**150,648**	**135,863**	**141,244**	**10.9**	**6.7**

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Retail banking:					
Households	63,598	60,335	60,793	5.4	4.6
Small business	10,215	8,948	9,517	14.2	7.3
Total retail	**73,813**	**69,283**	**70,310**	**6.5**	**5.0**
Private banking	8,929	6,777	7,027	31.8	27.1
Commercial banking	4,307	3,309	3,408	30.2	26.4
Business banking	48,032	39,061	43,467	23.0	10.5
Financial management	15,567	17,433	17,032	(10.7)	(8.6)
Total	**150,648**	**135,863**	**141,244**	**10.9**	**6.7**

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

	September 30,		December 31,
	2014	2013	2013
Maximum deposit			
Up to 1	49,719	48,555	48,678
1 to 10	29,745	27,234	25,226
10 to 100	14,074	11,456	14,810
100 to 500	12,934	10,639	13,507
Above 500	44,176	37,979	39,023
Total	**150,648**	**135,863**	**141,244**

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

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2014 was 5.52%, compared to 5.49% as of the end of 2013.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every banking corporation is required to maintain a total minimum capital ratio of no less than 12.5%[(2)] of weighted total of risk elements of its balance sheet assets and off-balance-sheet items, and these instructions stipulate the manner of calculation of total capital and total risk elements. 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 as from January 1, 2014, subject to transitional provisions.

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

	September 30, 2014	January 01, 2014	December 31, 2013	September 30, 2013
	Basel III	Basel III	Basel II	Basel II
Ratio of common equity Tier I to risk elements	9.01	8.73	[(1)]-	[(1)]-
Ratio of Tier I capital to risk elements	9.01	8.73	9.01	8.84
Ratio of total capital to risk elements	12.94	12.88	13.04	12.96
Minimum Tier I (core) capital adequacy ratio required by directives of the Supervisor of Banks	[(2)]9.00	[(2)]9.00	7.50	7.50
Total minimum capital ratio required by the directives of the Supervisor of Banks	[(2)]12.50	[(2)]12.50	9.00	9.00

(1) The requirement as to Minimum Tier I capital adequacy ratio applies as from January 1, 2014.
(2) As from January 1, 2015.

Off Balance Sheet Activity

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

				Change in % ove	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Off balance sheet financial instruments other than derivatives[1]:					
Documentary credit	269	394	296	(31.7)	(9.1)
Loan guarantees	2,116	2,457	2,413	(13.9)	(12.3)
Guarantees to home buyers	10,017	9,383	9,935	6.8	0.8
Guarantees and other liabilities	3,877	3,472	3,519	11.7	10.2
Unutilized revolving credit card facilities	7,325	7,132	7,135	2.7	2.7
Unutilized debitory account and other credit facilities in accounts available on demand	17,892	18,720	17,460	(4.4)	2.5
Irrevocable commitments for loans approved but not yet granted	9,757	8,719	9,009	11.9	8.3
Commitments to issue guarantees	7,623	5,169	6,265	47.5	21.7
Financial derivatives[2]:					
Total par value of financial derivatives	246,439	186,711	202,950	32.0	21.4

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 7 to the financial statements for additional information.

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

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2014	2013	2013	2013	2013
Client activities involving securities[1][2]	220,275	172,253	178,222	27.9	23.6
Assets of provident funds for which the Group provides operating services[3]	76,614	65,369	64,297	17.2	19.2
Activity by extent of collection[4]	13,308	14,344	13,539	(7.2)	(1.7)

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(2) Value of securities portfolios in Bank custody, held by clients. Revenues from securities transactions for the Group amounted to NIS 173 million in the first nine months of 2014, compared with NIS 163 million in the corresponding period last year - an increase of 6.1%.

(3) For information about the effect of provident fund market reform on the Bank's provident find operations, see chapter "Other Matters" below.

(4) 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 collection commission. These amounts exclude standing loans and government deposits extended for them.

Major Investees

The contribution of investees to net operating profit million in the first nine months of 2014 amounted to NIS 108 million, compared with NIS 95 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 105 million, compared to NIS 109 million in the corresponding period last year - see explanation below.

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

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.

Bank Yahav's contribution to Group net profit in the first nine of 2014 amounted to NIS 28 million, compared to NIS 37.2 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2014 was 7.3% on annualized basis, compared to 10.9% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2014 amounted to NIS 20,222 million, compared to NIS 19,327 million as of December 31, 2013 – an increase of NIS 895 million, or 4.6%. Net loans to the public as of September 30, 2014 amounted to NIS 7,110 million, compared to NIS 6,657 million as of December 31, 2013 – an increase of NIS 453 million, or 6.8%. Net deposits from the public as of September 30, 2014 amounted to NIS 17,269 million, compared to NIS 16,455 million as of December 31, 2013 – an increase of NIS 814 million, or 4.9%.

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

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

Tefahot Insurance's contribution to Group net profit in the first nine months of 2014 (excluding net financing revenues from excess cash) amounted to NIS 36.3 million, compared to NIS 31.3 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2014 was 10.2% on annualized basis, compared to 12.4% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first nine months of 2014 amounted to CHF 0.9 million, compared to CHF 0.2 million in the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of September 30, 2014 amounted to CHF 206 million, compared to CHF 180 million at the end of 2013 – an increase of 14.4%.

The balance of loans to the public as of September 30, 2014 amounted to CHF 67 million, compared to CHF 77 million at end of 2013 – a decrease of 13.0%. Deposits with banks as of September 30, 2014 amounted to CHF 135 million,

compared to CHF 92 million at end of 2013 – an increase of 46.7%. Deposits from the public as of September 30, 2014 amounted to CHF 142 million, compared to CHF 121 million at end of 2013 – an increase of 12.4%.
These data exclude off-balance-sheet items, such as fiduciary deposits which are major componets of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first nine months of 2014, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to profit of NIS 7.0 million, compared with loss of NIS 13.2 million in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first nine months of 2014 amounted to a NIS 3.7 million profit, compare to profit of NIS 0.9 million in the corresponding period last year.

In recent years, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities.
In August 2013, Mizrahi Bank Switzerland was informed by US authorities that an investigation of its business has been launched. Mizrahi Bank Switzerland expressed its willingness to assist and cooperate with US authorities, in conformity with statutory provisions and the treaty signed by the USA and Switzerland - and provided to US authorities statistical data as required.
On July 25, 2014, Mizrahi Bank Switzerland was required by US authorities to provide additional statistical information with regard to Mizrahi Bank Switzerland.
Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities and the Bank reports these events from time to time to the Supervisor of Banks.
Mizrahi Bank Switzerland and the Bank are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group.
For more information see chapter on Legal Proceedings below and Note 7.C.5 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 in the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 2.3% 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 September 30, 2014 amounted to NIS 139 million, compared to NIS 125 million at end of 2013. Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first nine months of 2014 to NIS 14 million for the Bank, compared to NIS 6 million in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments. 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 amendments to Public Reporting Regulations with regard to supervisory operating segments, see Note 1.D.5 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 six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 6-25 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

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

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2013.

Note 12 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit in the first nine months		Share of total net profit (in percent) for the first nine months		Return on equity (in %) in the first nine months	
	2014	2013	2014	2013	2014	2013
Household:						
Mortgages	304	(1)171	33.7	20.7	9.4	6.3
Other	(3)70	102	7.8	12.3	7.9	12.5
Private banking	17	16	1.9	1.9	32.2	23.6
Small business	(2)80	102	8.9	12.3	21.7	29.7
Commercial banking	51	52	5.7	6.3	16.3	15.7
Business banking	379	339	42.0	41.2	16.0	14.5
Financial management	(31)	44	-	5.3	-	20.5
Total	**870**	**826**	**100.0**	**100.0**	**11.4**	**12.1**

(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 group-based provision recognized as a result of significant growth in borrowing.

(3) The decrease in profit is primarily attributed to erosion of spread on deposits received, due to the low interest rate environment.

Below are Bank Group operating results by operating segment:

Results of Household Segment

	For the nine months ended September 30, 2014					For the nine months ended September 30, 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	339	18	-	1,919	2,276	192	19	-	2,795	3,006
Inter-segment	501	(4)	-	(1,352)	(855)	676	(4)	-	(2,289)	(1,617)
Total interest revenues, net	**840**	**14**	**-**	**567**	**1,421**	**868**	**15**	**-**	**506**	**1,389**
Non-interest financing revenues	-	-	4	-	4	(1)	-	5	-	4
Commissions and other revenues	152	101	142	139	534	179	91	129	172	571
Total revenues	**992**	**115**	**146**	**706**	**1,959**	**1,046**	**106**	**134**	**678**	**1,964**
Expenses with respect to credit losses	26	-	-	11	37	35	-	-	214	249
Operating and other expenses										
From outside operating segments	1,084	18	53	209	1,364	1,065	19	42	204	1,330
Inter-segment	(83)	(2)	-	-	(85)	(85)	(2)	-	-	(87)
Total operating and other expenses	**1,001**	**16**	**53**	**209**	**1,279**	**980**	**17**	**42**	**204**	**1,243**
Pre-tax profit	(35)	99	93	486	643	31	89	92	260	472
Provision for taxes on profit	(14)	38	35	182	241	10	31	32	89	162
After-tax profit	**(21)**	**61**	**58**	**304**	**402**	**21**	**58**	**60**	**171**	**310**
Net profit (loss):										
Before attribution to non-controlling interest	(21)	61	58	304	402	21	58	60	171	310
Attributable to non-controlling interest	(28)	-	-	-	(28)	(37)	-	-	-	(37)
Attributable to equity holders of the banking corporation	**(49)**	**61**	**58**	**304**	**374**	**(16)**	**58**	**60**	**171**	**273**
Return on capital (net profit as % of average capital)					**9.1%**					**7.8%**
Average asset balance	16,478	2,973	-	86,969	106,420	16,292	2,939	-	77,377	96,608
Average balance of liabilities	62,562	2,973	-	-	65,535	57,777	2,939	-	105	60,821
Average balance of risk assets	16,046	-	-	48,438	64,484	15,345	-	-	41,194	56,539
Average balance of securities(1)	-	-	37,603	-	37,603	-	-	30,666	-	30,666
Average balance of loans to the public	16,161	2,973	-	86,925	106,059	15,500	2,939	-	78,014	96,453
Average balance of deposits from the public	62,507	-	-	-	62,507	59,499	-	-	-	59,499
Credit to the public (end balance)	16,945	3,080	-	90,234	110,259	16,422	2,912	-	82,239	101,573
Deposits from the public (end balance)	63,598	-	-	-	63,598	60,335	-	-	-	60,335
Average balance of other assets managed(2)	1,839	-	-	8,542	10,381	961	-	-	10,226	11,187
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	585	14	-	530	1,129	522	15	-	461	998
Margin from receiving deposits	251	-	-	-	251	340	-	-	-	340
Other	4	-	-	37	41	6	-	-	45	51
Total interest revenues, net	**840**	**14**	**-**	**567**	**1,421**	**868**	**15**	**-**	**506**	**1,389**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(2) Including loans managed by the Bank and assets due to operations based on extent of collection. Excludes asset balances of provident funds, mutual funds and client securities – which are presented separately.

Contribution of the household segment to Group profit in the first nine months of 2014 amounted to NIS 374 million, compared to NIS 273 million in the corresponding period last year - an increase of 37%. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first nine months of 2014 amounted to NIS 304 million, compared to NIS 171 million in the corresponding period last year - an increase of 77.8%. Net return on capital from mortgages was 9.4%, compared to 6.3% 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 567 million, compared to NIS 506 million in the corresponding period last year, an increase of NIS 61 million - primarily due to an increase in mortgage business volume, with an average increase in balances of NIS 8.9 billion. Commissions and other revenues decreased by NIS 33 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 2.5% year-over-year.

Contribution of the household segment (excluding mortgages) in the first nine months of 2014 amounted to NIS 70 million, compared to NIS 102 million in the corresponding period last year - a decrease of NIS 32 million. Net interest revenues before expenses with respect to credit losses decreased by NIS 29 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 4 million, primarily due to application of FAS 91, as described above. Expenses with respect to credit losses in the first nine months of 2014 amounted to an expenses of NIS 26 million, a decrease of NIS 9 million compared to the corresponding period last year, attributed to a decrease in accounting write-offs of small-scale debt. Operating expenses increased by 3.0% over the corresponding period last year.

Results of Household Segment

	For the three months ended September 30, 2014					For the three months ended September 30, 2013				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
From outside operating segments	123	6	-	770	899	48	6	-	1,247	1,301
Inter-segment	157	(2)	-	(576)	(421)	241	(1)	-	(1,070)	(830)
Total interest revenues, net	**280**	**4**	**-**	**194**	**478**	**289**	**5**	**-**	**177**	**471**
Non-interest financing revenues	-	-	1	-	1	(1)	-	3	-	2
Commissions and other revenues	30	52	49	50	181	47	42	41	58	188
Total revenues	**310**	**56**	**50**	**244**	**660**	**335**	**47**	**44**	**235**	**661**
Expenses with respect to credit losses	9	-	-	4	13	14	-	-	16	30
Operating and other expenses										
From outside operating segments	377	6	18	73	474	371	5	14	72	462
Inter-segment	(28)	(1)	-	-	(29)	(30)	-	-	-	(30)
Total operating and other expenses	**349**	**5**	**18**	**73**	**445**	**341**	**5**	**14**	**72**	**432**
Pre-tax profit	(48)	51	32	167	202	(20)	42	30	147	199
Provision for taxes on profit	(20)	20	12	64	76	(8)	14	9	49	64
After-tax profit	**(28)**	**31**	**20**	**103**	**126**	**(12)**	**28**	**21**	**98**	**135**
Net profit (loss):										
Before attribution to non-controlling interest	(28)	31	20	103	126	(12)	28	21	98	135
Attributable to non-controlling interest	(11)	-	-	-	(11)	(13)	-	-	-	(13)
Attributable to equity holders of the banking corporation	**(39)**	**31**	**20**	**103**	**115**	**(25)**	**28**	**21**	**98**	**122**
Return on capital (net profit as % of average capital)					**8.2%**					**10.5%**
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	200	4	-	184	388	184	5	-	160	349
Margin from receiving deposits	78	-	-	-	78	104	-	-	-	104
Other	2	-	-	10	12	1	-	-	17	18
Total interest revenues, net	**280**	**4**	**-**	**194**	**478**	**289**	**5**	**-**	**177**	**471**

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First nine months		
	2014	2013	Change (in %)
Mortgages originated (for housing and for any purpose)			
From Bank funds	14,003	14,580	(4.0)
From Treasury funds:			
Directed loans	91	113	(19.5)
Standing loans and grants	138	139	(0.7)
Total new loans	**14,232**	**14,832**	**(4.0)**
Re-financed loans	2,148	1,871	14.8
Total loans originated	**16,380**	**16,703**	**(1.9)**
Number of borrowers (includes re-financed loans)	34,244	35,142	(2.6)

Results of Private Banking Segment

	For the nine months ended September 30, 2014			For the nine months ended September 30, 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)	(14)	-	(14)
Inter-segment	47	-	47	63	-	63
Total interest revenues, net	**46**	**-**	**46**	**49**	**-**	**49**
Non-interest financing revenues	-	-	-	1	-	1
Commissions and other revenues	28	17	45	21	18	39
Total revenues	**74**	**17**	**91**	**71**	**18**	**89**
Expenses with respect to credit losses	2	-	2	(2)	-	(2)
Operating and other expenses						
From outside operating segments	59	1	60	55	-	55
Inter-segment	3	-	3	12	-	12
Total operating and other expenses	**62**	**1**	**63**	**67**	**-**	**67**
Pre-tax profit	10	16	26	6	18	24
Provision for taxes on profit	3	6	9	2	6	8
Net profit attributable to equity holders of the banking corporation	**7**	**10**	**17**	**4**	**12**	**16**
Return on capital (net profit as % of average capital)			**32.2%**			**23.6%**
Average asset balance	2,196	-	2,196	2,281	-	2,281
Average balance of liabilities	8,759	-	8,759	6,984	-	6,984
Average balance of risk assets	810	-	810	1,050	-	1,050
Average balance of securities (2)	-	7,317	7,317	-	8,454	8,454
Average balance of loans to the public	882	-	882	1,257	-	1,257
Average balance of deposits from the public	7,860	-	7,860	6,419	-	6,419
Loans to the public, net (end balance)	887	-	887	1,002	-	1,002
Deposits from the public (end balance)	8,929	-	8,929	6,777	-	6,777
Average balance of other assets managed	10	-	10	7	-	7
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	17	-	17	24	-	24
Margin from receiving deposits	29	-	29	24	-	24
Other	-	-	-	1	-	1
Total interest revenues, net	**46**	**-**	**46**	**49**	**-**	**49**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(2) Including loans managed by the Bank and assets due to operations based on extent of collection. Excludes asset balances of provident funds, mutual funds and client securities – which are presented separately.

Contribution of the private banking segment to Group profit in the first nine months of 2014 amounted to NIS 17 million, compared to NIS 16 million in the corresponding period last year - an increase of NIS 1 million.

Below are key factors affecting the change in segment contribution:

Net interest revenues in the first nine months of 2014 amounted to NIS 46 million, compared to NIS 49 million in the corresponding period last year, a decrease of NIS 3 million – primarily due to a decrease in loans attributed to this segment. Commissions and other revenues in the first nine months of 2014 amounted to NIS 45 million, compared to NIS 39 million in the corresponding period last year. Expenses with respect to credit losses in the current period amounted to an expense of NIS 2 million, compared to a decrease in expense of NIS 2 million in the corresponding period last year. Total operating and other expenses decreased by NIS 4 million compared to the corresponding period last year.

The decrease in operating and other expenses is attributed to a decrease in the share of this segment compared to other segments.

Results of Private Banking Segment

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(14)	-	(14)	(16)	-	(16)
Inter-segment	31	-	31	30	-	30
Total interest revenues, net	**17**	**-**	**17**	**14**	**-**	**14**
Non-interest financing revenues	-	-	-	1	-	1
Commissions and other revenues	9	5	14	6	3	9
Total revenues	**26**	**5**	**31**	**21**	**3**	**24**
Expenses with respect to credit losses	-	-	-	1	-	1
Operating and other expenses						
From outside operating segments	20	1	21	19	-	19
Inter-segment	-	-	-	6	-	6
Total operating and other expenses	**20**	**1**	**21**	**25**	**-**	**25**
Pre-tax profit	6	4	10	(5)	3	(2)
Provision for taxes on profit	1	2	3	(2)	1	(1)
Net profit attributable to equity holders of the banking corporation	5	2	7	(3)	2	(1)
Return on capital (net profit as % of average capital)			**41.9%**			**-**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	5	-	5	9	-	9
Margin from receiving deposits	12	-	12	5	-	5
Other	-	-	-	-	-	-
Total interest revenues, net	**17**	**-**	**17**	**14**	**-**	**14**

Results of the Small Business Segment

	For the nine months ended September 30, 2014				For the nine months ended September 30, 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	357	6	-	363	316	6	-	322
Inter-segment	19	(1)	-	18	29	(1)	-	28
Total interest revenues, net	**376**	**5**	**-**	**381**	**345**	**5**	**-**	**350**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	149	13	11	173	159	11	15	185
Total revenues	**525**	**18**	**11**	**554**	**504**	**16**	**15**	**535**
Expenses with respect to credit losses	71	-	-	71	48	-	-	48
Operating and other expenses								
From outside operating segments	386	3	4	393	363	3	4	370
Inter-segment	(39)	-	-	(39)	(39)	-	-	(39)
Total operating and other expenses	**347**	**3**	**4**	**354**	**324**	**3**	**4**	**331**
Pre-tax profit	107	15	7	129	132	13	11	156
Provision for taxes on profit	40	6	3	49	46	4	4	54
Net profit attributable to equity holders of the banking corporation	**67**	**9**	**4**	**80**	**86**	**9**	**7**	**102**
Return on capital (net profit as % of average capital)				**21.7%**				**29.7%**
Average asset balance	7,758	368	-	8,126	7,076	345	-	7,421
Average balance of liabilities	10,424	368	-	10,792	8,449	345	-	8,794
Average balance of risk assets	5,593	-	-	5,593	5,352	-	-	5,352
Average balance of securities(1)	-	-	8,202	8,202	-	-	6,431	6,431
Average balance of loans to the public	7,747	368	-	8,115	7,006	345	-	7,351
Average balance of deposits from the public	10,028	-	-	10,028	8,675	-	-	8,675
Loans to the public, net (end balance)	8,172	400	-	8,572	7,238	351	-	7,589
Deposits from the public (end balance)	10,215	-	-	10,215	8,948	-	-	8,948
Average balance of other assets managed(2)	245	-	-	245	198	-	-	198
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	326	-	-	326	283	-	-	283
Margin from receiving deposits	38	-	-	38	49	-	-	49
Other	12	5	-	17	13	5	-	18
Total interest revenues, net	**376**	**5**	**-**	**381**	**345**	**5**	**-**	**350**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(2) Including loans managed by the Bank and assets due to operations based on extent of collection. Excludes asset balances of provident funds, mutual funds and client securities – which are presented separately.

Contribution of the small business segment to Group profit in the first nine months of 2014 amounted to NIS 80 million, compared to NIS 102 million in the corresponding period last year - a decrease of 21.6%. Below are key factors affecting the change in segment contribution: Net interest revenues amounted to NIS 381 million, compared to NIS 350 million in the corresponding period last year, an increase of 8.9% – 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 71 million, compared to NIS 48 million in the corresponding period last year, an increase of NIS 23 million - primarily attributed to increase in group-based provisions due to a significant increase in credit volume in this segment. Commissions and other revenues decreased by NIS 12 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 6.9% due to increased business attributed to this segment.

Results of the Small Business Segment

	For the three months ended September 30, 2014				For the three months ended September 30, 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	119	2	-	121	94	2	-	96
Inter-segment	10	-	-	10	22	-	-	22
Total interest revenues, net	**129**	**2**	**-**	**131**	**116**	**2**	**-**	**118**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	52	4	3	59	53	4	5	62
Total revenues	**181**	**6**	**3**	**190**	**169**	**6**	**5**	**180**
Expenses with respect to credit losses	28	-	-	28	24	-	-	24
Operating and other expenses								
From outside operating segments	137	1	2	140	128	1	2	131
Inter-segment	(13)	-	-	(13)	(14)	-	-	(14)
Total operating and other expenses	**124**	**1**	**2**	**127**	**114**	**1**	**2**	**117**
Pre-tax profit	29	5	1	35	31	5	3	39
Provision for taxes on profit	11	2	1	14	10	1	1	12
Net profit attributable to equity holders of the banking corporation	**18**	**3**	**-**	**21**	**21**	**4**	**2**	**27**
Return on capital (net profit as % of average capital)				**17.3%**				**24.7%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	115	-	-	115	97	-	-	97
Margin from receiving deposits	11	-	-	11	15	-	-	15
Other	3	2	-	5	4	2	-	6
Total interest revenues, net	**129**	**2**	**-**	**131**	**116**	**2**	**-**	**118**

Results of the Commercial Banking Segment

	For the nine months ended September 30, 2014				For the nine months ended September 30, 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	133	-	-	133	145	-	-	145
Inter-segment	(11)	-	-	(11)	(21)	-	-	(21)
Total interest revenues, net	**122**	**-**	**-**	**122**	**124**	**-**	**-**	**124**
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	29	2	4	35	35	2	6	43
Total revenues	**151**	**2**	**5**	**158**	**159**	**2**	**7**	**168**
Expenses with respect to credit losses	(11)	-	-	(11)	(9)	-	-	(9)
Operating and other expenses								
From outside operating segments	43	-	-	43	48	-	1	49
Inter-segment	44	-	-	44	48	-	-	48
Total operating and other expenses	**87**	**-**	**-**	**87**	**96**	**-**	**1**	**97**
Pre-tax profit	75	2	5	82	72	2	6	80
Provision for taxes on profit	28	1	2	31	25	1	2	28
Net profit attributable to equity holders of the banking corporation	**47**	**1**	**3**	**51**	**47**	**1**	**4**	**52**
Return on capital (net profit as % of average capital)				**16.3%**				**15.7%**
Average asset balance	4,333	44	-	4,377	4,632	50	-	4,682
Average balance of liabilities	4,256	44	-	4,300	3,486	50	-	3,536
Average balance of risk assets	4,729	-	-	4,729	5,090	-	-	5,090
Average balance of securities[(1)]	-	-	4,029	4,029	-	-	3,810	3,810
Average balance of loans to the public	4,331	44	-	4,375	4,614	50	-	4,664
Average balance of deposits from the public	3,960	-	-	3,960	3,516	-	-	3,516
Loans to the public, net (end balance)	4,331	44	-	4,375	4,660	51	-	4,711
Deposits from the public (end balance)	4,307	-	-	4,307	3,309	-	-	3,309
Average balance of other assets managed[(2)]	438	-	-	438	261	-	-	261
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	109	-	-	109	107	-	-	107
Margin from receiving deposits	10	-	-	10	13	-	-	13
Other	3	-	-	3	4	-	-	4
Total interest revenues, net	**122**	**-**	**-**	**122**	**124**	**-**	**-**	**124**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(2) Including loans managed by the Bank and assets due to operations based on extent of collection. Excludes asset balances of provident funds, mutual funds and client securities – which are presented separately.

Contribution of the commercial banking segment to Group profit in the first nine months of 2014 amounted to NIS 51 million, compared to NIS 52 million in the corresponding period last year, a decrease of NIS 1 million. Below are key factors affecting the change in segment contribution: Net interest revenues decreased by NIS 2 million, primarily due to lower margins on deposits received, due to the low interest environment. Commissions and other revenues decreased by NIS 8 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 11 million, compared to a decrease in expense of NIS 9 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 10 million compared to the corresponding period last year, attributed to a decrease in this segment's share compared to other segments.

Results of the Commercial Banking Segment

	For the three months ended September 30, 2014				For the three months ended September 30, 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	43	-	-	43	48	-	-	48
Inter-segment	(2)	-	-	(2)	(8)	-	-	(8)
Total interest revenues, net	**41**	**-**	**-**	**41**	**40**	**-**	**-**	**40**
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	9	1	1	11	12	1	2	15
Total revenues	**50**	**1**	**2**	**53**	**52**	**1**	**3**	**56**
Expenses with respect to credit losses	(7)	-	-	(7)	(4)	-	-	(4)
Operating and other expenses								
From outside operating segments	15	-	-	15	17	-	1	18
Inter-segment	14	-	-	14	17	-	-	17
Total operating and other expenses	**29**	**-**	**-**	**29**	**34**	**-**	**1**	**35**
Pre-tax profit	28	1	2	31	22	1	2	25
Provision for taxes on profit	10	1	1	12	8	1	-	8
Net profit attributable to equity holders of the banking corporation	**18**	**-**	**1**	**19**	**14**	**-**	**2**	**17**
Return on capital (net profit as % of average capital)				**19.1%**				**15.9%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	37	-	-	37	37	-	-	37
Margin from receiving deposits	3	-	-	3	4	-	-	4
Other	1	-	-	1	(1)	-	-	(1)
Total interest revenues, net	**41**	**-**	**-**	**41**	**40**	**-**	**-**	**40**

Results of the Business Banking Segment

	For the nine months ended September 30, 2014				For the nine months ended September 30, 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	118	-	269	387	42	-	266	308
Inter-segment	256	-	(71)	185	330	-	(102)	228
Total interest revenues, net	**374**	**-**	**198**	**572**	**372**	**-**	**164**	**536**
Non-interest financing revenues	11	8	-	19	16	7	-	23
Commissions and other revenues	54	17	100	171	56	22	92	170
Total revenues	**439**	**25**	**298**	**762**	**444**	**29**	**256**	**729**
Expenses with respect to credit losses	2	-	(72)	(70)	36	-	(36)	-
Operating and other expenses								
From outside operating segments	136	5	23	164	126	5	23	154
Inter-segment	53	-	11	64	48	-	11	59
Total operating and other expenses	**189**	**5**	**34**	**228**	**174**	**5**	**34**	**213**
Pre-tax profit	248	20	336	604	234	24	258	516
Provision for taxes on profit	92	7	126	225	79	8	90	177
Net profit (loss) attributable to equity holders of the banking corporation	**156**	**13**	**210**	**379**	**155**	**16**	**168**	**339**
Return on capital (net profit as % of average capital)				**16.0%**				**14.5%**
Average asset balance	16,923	-	7,955	24,878	18,641	-	8,023	26,664
Average balance of liabilities	44,016	-	2,544	46,560	34,908	-	2,293	37,201
Average balance of risk assets	18,485	-	19,672	38,157	18,684	-	17,283	35,967
Average balance of securities[2]	-	68,399	-	68,399	-	61,841	-	61,841
Average balance of loans to the public	14,731	-	7,858	22,589	14,955	-	7,435	22,390
Average balance of deposits from the public	43,182	-	2,491	45,673	34,907	-	2,264	37,171
Loans to the public, net (end balance)	14,752	-	7,854	22,606	14,432	-	7,440	21,872
Deposits from the public (end balance)	45,570	-	2,462	48,032	36,825	-	2,236	39,061
Average balance of other assets managed[3]	578	-	44	622	179	-	53	232
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	294	-	169	463	293	-	138	431
Margin from receiving deposits	66	-	9	75	62	-	11	73
Other	14	-	20	34	17	-	15	32
Total interest revenues, net	**374**	**-**	**198**	**572**	**372**	**-**	**164**	**536**

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

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(3) Including loans managed by the Bank and assets due to operations based on extent of collection. Excludes asset balances of provident funds, mutual funds and client securities – which are presented separately.

Contribution of the business banking segment to Group profit in the first nine months of 2014 amounted to NIS 379 million, compared to NIS 339 million in the corresponding period last year, an increase of 11.8%.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sub-segment increased in the first nine months of 2014 by NIS 42 million, or 25.0%, over the corresponding period last year. Interest revenues, net amounted to NIS 198 million, compared to NIS 164 million in the corresponding period last year - an increase of 20.7%, attributed to significant increase in lending volume. Expenses with respect to credit losses amounted to a decrease in expense of NIS 72 million, compared to a decrease in expense of NIS 36 million in the corresponding period last year. The decrease in expenses in both these periods is attributed to collection of debt previously written-off. Commissions and other revenues increased by NIS 8 million. The increase in commissions and other revenues is due to increase in financing commissions for closed projects. Operating and other expenses were essentially unchanged.

Contribution of business banking excluding construction and real estate decreased by NIS 2 million compared to the corresponding period last year. Total financing revenues (interest and non-interest) attributed to business banking, excluding construction and real estate, decreased by NIS 2 million compared to the corresponding period last year. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, amounted in the current period to NIS 2 million, compared to expenses amounting to NIS 36 million in the corresponding period last year. The expense in the current period is primarily attributed to changes in group-based provision attributed to business banking excluding real estate. Commissions and other revenues decreased by NIS 7 million year-over-year, 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).

Total operating and other expenses attributed to business banking, excluding construction and real estate, increased by 8.4% compared to the corresponding period last year. The increase is attributed to significant growth in deposits.

Results of the Business Banking Segment

	For the three months ended September 30, 2014				For the three months ended September 30, 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	44	-	81	125	5	-	97	102
Inter-segment	79	-	(18)	61	125	-	(40)	85
Total interest revenues, net	**123**	**-**	**63**	**186**	**130**	**-**	**57**	**187**
Non-interest financing revenues	4	3	-	7	3	2	-	5
Commissions and other revenues	15	6	34	55	17	7	33	57
Total revenues	**142**	**9**	**97**	**248**	**150**	**9**	**90**	**249**
Expenses with respect to credit losses	19	-	(44)	(25)	39	-	(19)	20
Operating and other expenses								
From outside operating segments	50	2	8	60	43	2	8	53
Inter-segment	19	-	4	23	17	-	4	21
Total operating and other expenses	**69**	**2**	**12**	**83**	**60**	**2**	**12**	**74**
Pre-tax profit	54	7	129	190	51	7	97	155
Provision for taxes on profit	20	2	49	71	14	2	31	47
Net profit (loss) attributable to equity holders of the banking corporation	**34**	**5**	**80**	**119**	**37**	**5**	**66**	**108**
Return on capital (net profit as % of average capital)				**14.2%**				**14.4%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	98	-	57	155	102	-	56	158
Margin from receiving deposits	22	-	3	25	20	-	3	23
Other	3	-	3	6	8	-	(2)	6
Total interest revenues, net	**123**	**-**	**63**	**186**	**130**	**-**	**57**	**187**

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

Results of the Financial Management Segment

	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(629)	-	(629)	(1,087)	-	(1,087)
Inter-segment	616	-	616	1,319	-	1,319
Total interest revenues, net	**(13)**	**-**	**(13)**	**232**	**-**	**232**
Non-interest financing revenues	102	4	106	(40)	2	(38)
Commissions and other revenues	63	35	98	58	39	97
Total revenues	**152**	**39**	**191**	**250**	**41**	**291**
Expenses with respect to credit losses	(6)	-	(6)	(3)	-	(3)
Operating and other expenses						
From outside operating segments	238	4	242	217	3	220
Inter-segment	13	-	13	7	-	7
Total operating and other expenses	**251**	**4**	**255**	**224**	**3**	**227**
Pre-tax profit (loss)	(93)	35	(58)	29	38	67
Provision for taxes on profit (loss)	(34)	13	(21)	10	13	23
After-tax profit (loss)	**(59)**	**22**	**(37)**	**19**	**25**	**44**
Share in net profits of associates, after tax	6	-	6	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	(53)	22	(31)	19	25	44
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**(53)**	**22**	**(31)**	**19**	**25**	**44**
Return on capital (net profit as % of average capital)			**-**			**20.5%**
Average asset balance	39,126	-	39,126	29,162	-	29,162
Of which: Investments in associates	64	-	64	62	-	62
Average balance of liabilities	40,110	-	40,110	39,802	-	39,802
Average balance of risk assets	5,086	-	5,086	5,535	-	5,535
Average balance of provident and mutual fund assets	84,778	-	84,778	82,410	-	82,410
Average balance of securities [(1)]	-	76,276	76,276	-	63,699	63,699
Average balance of deposits from the public	15,475	-	15,475	16,257	-	16,257
Deposits from the public (end balance)	15,567	-	15,567	17,433	-	17,433
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	(13)	-	(13)	232	-	232
Total interest revenues, net	**(13)**	**-**	**(13)**	**232**	**-**	**232**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Contribution of the financial management segment to Group profit in the first nine months of 2014 amounted to a loss of NIS 31 million, compared to a profit of NIS 44 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 101 million, primarily due to differences in fair value and other effects and to linkage differentials for a CPI-position in the current quarter compared to 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 1 million compared to the corresponding period last year. Operating and other expenses increased by NIS 28 million, attributed to an increase in derivative operations. Expenses with respect to credit losses in the current period amounted to a decrease in expense of NIS 6 million, compared to a decrease in expense of NIS 3 million in the corresponding period last year. The decrease in expense in both periods is attributed to lower group-based provision with respect to banks.

Results of the Financial Management Segment

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(281)	-	(281)	(526)	-	(526)
Inter-segment	321	-	321	701	-	701
Total interest revenues, net	**40**	**-**	**40**	**175**	**-**	**175**
Non-interest financing revenues	41	1	42	(100)	1	(99)
Commissions and other revenues	15	19	34	15	18	33
Total revenues	**96**	**20**	**116**	**90**	**19**	**109**
Expenses with respect to credit losses	(4)	-	(4)	(3)	-	(3)
Operating and other expenses						
From outside operating segments	81	1	82	71	1	72
Inter-segment	5	-	5	-	-	-
Total operating and other expenses	**86**	**1**	**87**	**71**	**1**	**72**
Pre-tax profit (loss)	14	19	33	22	18	40
Provision for taxes on profit (loss)	6	7	13	7	6	13
After-tax profit (loss)	**8**	**12**	**20**	**15**	**12**	**27**
Share in net profits of associates, after tax	3	-	3	1	-	1
Net profit (loss):						
Before attribution to non-controlling interest	11	12	23	16	12	28
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**11**	**12**	**23**	**16**	**12**	**28**
Return on capital (net profit as % of average capital)			**52.1%**			**25.1%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	40	-	40	175	-	175
Total interest revenues, net	**40**	**-**	**40**	**175**	**-**	**175**

Product operations

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

	For the nine months ended September 30, 2014			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	14	5	-	19
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	101	13	2	116
Total revenues	**115**	**18**	**2**	**135**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	16	3	-	19
Pre-tax profit	**99**	**15**	**2**	**116**
Provision for taxes on profit	38	6	1	45
Net profit	**61**	**9**	**1**	**71**

	For the nine months ended September 30, 2013			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	15	5	-	20
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	91	11	2	104
Total revenues	**106**	**16**	**2**	**124**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	17	3	-	20
Pre-tax profit	**89**	**13**	**2**	**104**
Provision for taxes on profit	31	4	1	36
Net profit	**58**	**9**	**1**	**68**

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

	For the nine months ended September 30, 2014						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	4	-	-	1	8	4	17
Commissions and other revenues	142	17	11	4	17	35	226
Total revenues	**146**	**17**	**11**	**5**	**25**	**39**	**243**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	53	1	4	-	5	4	67
Pre-tax profit	**93**	**16**	**7**	**5**	**20**	**35**	**176**
Provision for taxes on profit	35	6	3	2	7	13	66
Net profit	**58**	**10**	**4**	**3**	**13**	**22**	**110**

	For the nine months ended September 30, 2013						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	5	-	-	1	7	2	15
Commissions and other revenues	129	18	15	6	22	39	229
Total revenues	**134**	**18**	**15**	**7**	**29**	**41**	**244**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	42	-	4	1	5	3	55
Pre-tax profit	**92**	**18**	**11**	**6**	**24**	**38**	**189**
Provision for taxes on profit	32	6	4	2	8	13	65
Net profit	**60**	**12**	**7**	**4**	**16**	**25**	**124**

International Operations

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

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

Details of the affiliates and their business are as follows:

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

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

- **Los Angeles Branch**: The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.

- **London Branch**: The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's clients are local, Israeli and international clients.

- **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.

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

Representative offices – The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay, Panama and Germany.

For details of local supervision of Bank affiliates overseas, see chapter on international operations in the Board of Directors' Report included with the financial statements as of December 31, 2013.

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

	For the nine months ended September 30, 2014				
	Households	Private banking	Business banking	Financial management	Total
	Unaudited amounts (NIS in millions)				
Interest revenues, net	4	38	37	19	98
Non-interest financing revenues	-	-	1	(3)	(2)
Commissions and other revenues	1	36	5	2	44
Total revenues	**5**	**74**	**43**	**18**	**140**
Reduced expenses with respect to credit losses	-	1	-	-	1
Operating and other expenses	2	49	29	5	85
Pre-tax profit	**3**	**24**	**14**	**13**	**54**
Provision for taxes on profit	1	9	5	5	20
Net profit	**2**	**15**	**9**	**8**	**34**

	For the nine months ended September 30, 2013				
	Households	Private banking	Business banking	Financial management	Total
	Unaudited amounts (NIS in millions)				
Interest revenues, net	4	37	36	21	98
Non-interest financing revenues	-	-	5	(6)	(1)
Commissions and other revenues	-	31	3	2	36
Total revenues	**4**	**68**	**44**	**17**	**133**
Reduced expenses with respect to credit losses	-	(3)	-	-	(3)
Operating and other expenses	2	49	29	5	85
Pre-tax profit	**2**	**22**	**15**	**12**	**51**
Provision for taxes on profit	-	6	5	4	15
Net profit	**2**	**16**	**10**	**8**	**36**

Sources and Financing

Group financing sources include deposits, obligatory notes and debentures of various types, as well as shareholders' equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity and capital adequacy – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Total deposits from the public for the Group as of September 30, 2014 amounted to NIS 150.6 billion, compared to NIS 141.2 billion at end of 2013. Deposits from the public in the CPI-linked segment as of September 30, 2014 decreased by 4.2% compared to the end of 2013; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 30.1%, while deposits in the NIS-denominated, non-CPI-linked segment increased by 2.4%. For details, see chapter "Development of balance sheet items" above.

As of September 30, 2014, the balance of the three largest depositor groups at the Bank Group amounted to NIS 17.2 billion.

Obligatory notes and debentures

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("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 26-38), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 15,878 million in total par value (as of December 31, 2013 - NIS 11,128 million), of which NIS 2,131 million was in subordinated notes (qualified for inclusion in Tier II capital for maintaining minimum capital ratio, subject to transition provisions).

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, pursuant to a shelf prospectus dated July 30, 2013.

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, pursuant to a shelf prospectus dated July 30, 2013.

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, pursuant to a shelf prospectus dated July 30, 2013.

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

Complex capital instruments

All of the Bank's complex capital instruments (Series A) issued and listed for trading considered upper Tier II capital for maintaining minimum capital ratio amounted to NIS 1,702 million par value as of September 30, 2014, issued for consideration amounting to NIS 1,614 million.

The revalued balance of the complex capital instruments as of September 30, 2014 was NIS 2.0 billion, similar to the end of 2013.

Rating of Bank obligations

In accordance with a rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the Bank's issuer rating, including deposits deposited with the Bank, is ilAA+, unchanged since the Bank was first rated in 2003.

On January 07, 2014, Maalot confirmed the Bank's issuer rating and its Stable rating outlook, effective as from December 19, 2013.

The rating of subordinated notes issued by Tefahot Issuance remained one rank below the issuer rating, i.e. rated ilAA.

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

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

Risk Management

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 recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.

As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2013.

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

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

(1) www.mizrahi-tefahot.co.il >> 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 companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2013. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel rules, as stated in Proper Conduct of Banking Business regulation 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operating risk and market risk.

As from early 2013, the Bank applies advanced credit-related models (IRB) to monitor risk in the mortgage portfolio, including stress testing, in addition to monitoring, management and measurement of the mortgage portfolio.

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

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

	As of September 30, 2014		As of September 30, 2013		As of December 31, 2013	
Exposure group	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Sovereign debt	561	70	486	44	521	47
Public sector entity debt	346	43	490	44	455	41
Banking corporation debt	1,271	159	1,120	101	1,390	125
Corporate debt	41,422	5,178	39,602	3,564	39,688	3,572
Debt secured by commercial real estate	2,778	347	2,353	212	2,209	199
Retail exposure to individuals	11,282	1,410	10,198	917	10,445	940
Loans to small businesses	4,110	514	3,762	339	3,754	338
Residential mortgages	48,672	6,084	42,503	3,825	43,889	3,950
Other assets	4,353	544	3,778	340	3,060	275
Total	(3)**114,795**	**14,349**	**104,292**	**9,386**	**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[1] risk and operating risk are as follows (NIS in millions):

	As of September 30, 2014		As of September 30, 2013		As of December 31, 2013	
Exposure group	Weighted risk asset balances	Capital requirement[2]	Weighted risk asset balances	Capital requirement[3]	Weighted risk asset balances	Capital requirement[3]
Market risk	897	112	1,065	96	842	76
CVA risk with respect to derivatives[1]	877	110	-	-	-	-
Operating risk	7,243	905	7,121	641	7,154	644
Total	**9,017**	**1,127**	**8,186**	**737**	**7,996**	**720**

(1) Credit Value Adjustments – adjustment to market value with respect to counter-party credit risk.
(2) Capital requirement calculated at 12.5% of risk asset balance.
(3) Capital requirement calculated at 9% of risk asset balance, in accordance with an 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 September 30, 2014	As of September 30, 2013	As of December 31, 2013
Ratio of common equity Tier I capital to risk elements	9.01	[1]-	[1]-
Ratio of Tier I capital to risk elements	9.01	8.84	9.01
Ratio of total capital to risk elements	12.94	12.96	13.04
Minimum Tier I capital ratio required by Supervisor of Banks	[2] 9.00	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	[2]12.50	9.00	9.00

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

(2) As from January 1, 2015.

Risk exposure and assessment there of

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policies, in various aspects, are designed to support achievement of the Group's business goals while limiting exposure to such risk. 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 improved its handling of the risk appetite specified by the Board of Directors and in particular, has created a dedicated policy document which governs the qualitative and quantitative framework for handling risk appetite including its reporting and monitoring.

Risk is regularly managed at the Group in conformity with the Bank of Israel's Proper Conduct of Banking Business Regulation 310 (risk management) and in conformity with the framework stipulated by 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 (Regulation 333 will be effective as from July 2014), 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 Regulation 342. 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 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 ICAAR document.

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.

As part of reorganization of the Risk Control Division, the Division assumed responsibility for the Analysis Department, which provides independent review of major credit applications, presenting its recommendations as part of the credit approval process to senior forums at the Bank. This department and the credit control department now report to the Risk Control Division Manager, who is the Bank's CRO.

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 September 30, 2014									
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total(2)
Loans(3)	22,620	443	2,700	28,213	2,721	15,148	6,865	94,632	-	173,342
Securities (4)	11,185	3	589	395	-	-	-	-	-	12,172
Derivatives(5)	62	561	874	2,440	-	33	9	-	-	3,979
Other off-balance-sheet exposures	192	116	33	41,120	512	10,446	2,705	3,991	-	59,115
Other assets(6)	-	-	-	-	-	-	-	-	4,523	4,523
Total	**34,059**	**1,123**	**4,196**	**72,168**	**3,233**	**25,627**	**9,579**	**98,623**	**4,523**	**253,131**

	As of December 31, 2013									
	Sovereigns	Public sector	Banking corporations	Corporations	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 September 30, 2014				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total[2]
Loans[3]	54,515	24,883	93,825	119	173,342
Securities [4]	227	9,178	2,767	-	12,172
Derivatives [5]	2,687	930	362	-	3,979
Other off-balance-sheet exposures	48,213	9,574	1,328	-	59,115
Other assets[6]	1,885	820	86	1,732	4,523
Total	**107,526**	**45,385**	**98,368**	**1,851**	**253,131**

	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 the 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 September 30, 2014											
	0%	20%	35%	50%	75%	100%	150%	250%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:												
Sovereign debt	31,330	2,499	-	-	-	229	-	-	-	34,058	-	34,058
Public sector entity debt	-	-	-	1,120	-	-	-	-	-	1,120	-	1,120
Banking corporation debt	-	3,436	-	571	-	173	-	-	-	4,180	-	4,180
Corporate debt	-	258	-	155	-	-	-	-	-	413	-	413
Total	**31,330**	**6,193**	**-**	**1,846**	**-**	**402**	**-**	**-**	**-**	**39,771**	**-**	**39,771**
Non-rated exposures:												
Public sector entity debt	-	-	-	3	-	-	-	-	-	3	-	3
Banking corporation debt	-	2	-	13	-	-	-	-	-	15	-	15
Corporate debt	-	-	-	-	-	71,491	168	-	-	71,659	-	71,659
Debt secured by commercial real estate	-	-	-	-	-	2,885	330	-	-	3,215	-	3,215
Retail exposure to individuals	-	-	-	-	25,504	63	60	-	-	25,627	-	25,627
Loans to small businesses	-	-	-	-	9,478	54	47	-	-	9,579	-	9,579
Residential mortgages	-	-	54,734	11,528	26,660	5,453	249	-	-	98,624	-	98,624
Other assets	1,352	-	-	-	-	2,333	55	783	-	4,523	87	4,610
Total	**1,352**	**2**	**54,734**	**11,544**	**61,642**	**82,279**	**909**	**783**	**-**	**213,245**	**87**	**213,332**
Total	**32,682**	**6,195**	**54,734**	**13,390**	**61,642**	**82,681**	**909**	**783**	**-**	**253,016**	**87**	**253,103**

(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 September 30, 2014											
	0%	20%	35%	50%	75%	100%	150%	250%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:												
Sovereign debt	32,152	2,500	-	-	-	213	-	-	-	34,865	-	34,865
Public sector entity debt	270	-	-	727	-	-	-	-	-	997	-	997
Banking corporation debt	-	3,534	-	571	-	171	-	-	-	4,276	-	4,276
Corporate debt	-	258	-	155	-	-	-	-	-	413	-	413
Total	**32,422**	**6,292**	**-**	**1,453**	**-**	**384**	**-**	**-**	**-**	**40,551**	**-**	**40,551**
Non-rated exposures:												
Public sector entity debt	-	-	-	3	-	-	-	-	-	3	-	3
Banking corporation debt	-	220	-	137	-	-	-	-	-	357	-	357
Corporate debt	-	-	-	-	-	61,482	156	-	-	61,638	-	61,638
Debt secured by commercial real estate	-	-	-	-	-	2,550	330	-	-	2,880	-	2,880
Retail exposure to individuals	-	-	-	-	23,448	33	59	-	-	23,540	-	23,540
Loans to small businesses	-	-	-	-	7,043	47	41	-	-	7,131	-	7,131
Residential mortgages	-	-	54,734	11,528	26,572	5,451	248	-	-	98,533	-	98,533
Other assets	1,352	-	-	-	-	2,333	55	783	-	4,523	87	4,610
Total	**1,352**	**220**	**54,734**	**11,668**	**57,063**	**71,896**	**889**	**783**	**-**	**198,605**	**87**	**198,692**
Total exposure	**33,774**	**6,512**	**54,734**	**13,121**	**57,063**	**72,280**	**889**	**783**	**-**	**239,156**	**87**	**239,243**

Before credit risk mitigation

	As of December 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	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**

After credit risk mitigation

	As of December 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Net 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 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), NIS in millions:

As of September 30, 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 the short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Leveraged financing

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

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

- Financing for leveraged companies, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria which classify credit included in this category, based primarily on the credit rating of the business client, as reflected in the Criteria model and then individual review of each borrower who meets the threshold criteria. Such borrowers are reviewed by a forum which includes representatives from the Business Division, the Risk Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

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

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

	On-balance sheet credit risk as of:		
Economic sector of acquired company	September 30, 2014	September 30, 2013	December 31, 2013
Construction and real estate	181	192	179
Communications and computer services	-	222	204
Total	**181**	**414**	**383**

Credit to leveraged companies (NIS in millions):

	On-balance sheet credit risk as of [(1)]	
Economic sector of borrower	September 30, 2014	December 31, 2013
Construction and real estate	368	470
Commerce	42	224
Industry	88	212
Financial services	42	136
Total	**540**	**1,042**

(1) Note that the definition of leveraged financing above was made in December 2013 - so that no comparison figures are presented as of September 30, 2013.

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

	As of September 30, 2014		
External credit rating	On balance sheet credit risk [3]	Off balance sheet credit risk[4]	Current credit exposure
AAA to AA-	686	-	686
A+ to A-	1,884	2	1,886
BBB+ to BBB-	-	-	-
+BB to B-	-	11	11
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**2,574**	**13**	**2,587**
Of which: Troubled commercial credit risk, net[5]	-	-	-

	As of September 30, 2013		
External credit rating	On balance sheet credit risk[3]	Off balance sheet credit risk[4]	Current credit exposure
AAA to AA-	672	-	672
A+ to A-	1,197	2	1,199
BBB+ to BBB-	2	-	2
+BB to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**1,875**	**12**	**1,887**
Of which: Troubled commercial credit risk, net [5]	4	-	4

	As of December 31, 2013		
External credit rating	On-balance sheet credit risk[3]	Off-balance sheet credit risk[4]	Current credit exposure
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
Total credit exposure to foreign financial institutions	**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 Canada.
(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 8 to the financial statements.

Some of the exposures listed in the above table are included under Management Discussion - Addendum C - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Discussion also includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to derivative instruments. Future transactions, weighted in accordance with rules stated 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 Board of Directors sets, *inter alia*, the risk appetite - i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for that institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with that financial institution is also taken into consideration. The policies also determine a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Ratings – Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as mentioned above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on Bank exposure to sovereigns and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments.

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

Environmental risk – In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. 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 directly 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 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 procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. The Bank's policy documents include dedicated environmental risk policies, including a methodology for identification, assessment and handling of environmental risk. The environmental risk policies are approved annually by the Bank Board of Directors.

Credit losses with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with provision of housing loans. The Bank estimates the risk 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. The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2013.

The key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model, LTV ratio of the loan, property location (geographical risk) and credit quality benchmark. 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 on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio, in view of the specified risk appetite. Currently, the Bank has over 40 risk appetite 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, including LTV and loan repayment ratio.

The Bank monitors the current portfolio, including performance analysis by various criteria and by risk focal points. In addition, the Bank regularly conducts stress testing of its mortgage portfolio - challenging multiple risk factors in this portfolio, as presented below. Some stress testing is conducted using advanced methods and using current data from advanced models developed by the Bank. The Bank recently upgraded its stress testing in conformity with Bank of Israel directives (the Bank of Israel uniform scenario – a uniform macro-economic scenario for the entire banking system). The various stress tests conducted by the Bank challenge, *inter alia*, the current macro-economic situation and account for a very high level of unemployment compared to the current situation, an interest rate which is significantly higher than current interest rates as well as sharply lower housing prices. 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.

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 September 30, 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 September 30, 2014 was 55.8%, compared to 56.3% on December 31, 2013 and to 57.8% on December 31, 2012. Out of the Bank's total housing loan portfolio, amounting to NIS 95.8 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 0.7 billion, or only 0.8% 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 determined by Section 9(c1a)(2)(a)(2) of the Real Estate Taxation Act)

Up to 50% – for buyers of rental property, for general-purpose loans and for loans to foreign residents.

Loans previously 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 4.0 billion, or 49.3%, is insured by credit insurance.
In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 3.3% for loans granted 1-2 years ago, 0.8% for loans granted 3-12 months ago and 0.6% for loans granted in the third quarter of 2014.

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 29.8%. Some 74% of the Bank's mortgage portfolio was granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 24.0%); Approximately 19% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.8%). Some 6% of the mortgage portfolio were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.9%), and only 1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.4%).

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. For further details, see above the chapter on Legislation and Supervision of Bank Group Operations on the financial statements as of December 31, 2013.

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 below.

Loans bearing variable interest

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

Over the past decade, the prime lending rate decreased from 10% in 2002-2003, through 5%-6% in 2004-2008 to 1.75%-5% from 2009 to date. Hence, 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 10.6 billion, or only 11.1% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase based on "normative interest".

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 33.3% of total loan amount, has also contributed to further reduction in variable interest loans extended, and to mitigation of risk in this area.

According to the Supervisor's letter dated August 29, 2013, further 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 66.6%, regardless of the frequency of interest rate adjustment.

For further details, see above the chapter on Legislation and Supervision of Bank Group Operations on the financial statements as of December 31, 2013.

The aforementioned directives by the Supervisor of Banks, dated May 3, 2011 and dated August 29, 2013, were incorporated in a circular concerning restrictions on provision of housing loans dated May 15, 2014. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 3.9 billion as of September 30, 2014, 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%	2,487	8,087	7,737	13,798	7,018	1,997	41,124
	35%-50%	436	1,507	2,436	4,340	1,750	430	10,899
	50%-80%	3	38	760	1,656	753	189	3,399
	Over 80%	-	7	81	158	140	44	430
60%-75%	Up to 35%	1,077	4,474	5,180	9,344	3,401	609	24,085
	35%-50%	185	562	1,371	2,677	979	186	5,960
	50%-80%	2	15	293	863	356	78	1,607
	Over 80%	-	1	6	53	64	16	140
Over 75%	Up to 35%	25	95	499	2,335	1,736	1,288	5,978
	35%-50%	-	22	93	552	457	480	1,604
	50%-80%	-	-	15	101	168	167	451
	Over 80%	-	-	-	11	38	34	83
Total		**4,215**	**14,808**	**18,471**	**35,888**	**16,860**	**5,518**	**95,760**
Of which:								
Loans granted with original amount over NIS 2 million		130	552	779	1,901	497	23	3,882
Percentage of total housing loans		3.1%	3.7%	4.2%	5.3%	2.9%	0.4%	4.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,049	4,482	5,075	11,075	8,613	288	30,582
CPI-linked(3)		39	191	338	4,474	3,289	1,448	9,779
In foreign currency (3)		92	417	671	2,695	381	328	4,584
Total		**1,180**	**5,090**	**6,084**	**18,244**	**12,283**	**2,064**	**44,945**
Non-linked loans at prime lending rate, as percentage of total housing loans		24.9%	30.3%	27.5%	30.9%	51.1%	5.2%	31.9%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.9%	1.3%	1.8%	12.5%	19.5%	26.2%	10.2%
Loans with LTV over 75% as percentage of total housing loans		0.6%	0.8%	3.3%	8.4%	14.2%	35.7%	8.5%

(1) Housing loan balance 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 at intervals shorter than 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 September 30, 2014 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to re-financed 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	11	12	13	203	239	81	325
Of which: Balance of provision for interest[1]	-	-	-	1	100	101	6	107
Recorded debt balance	322	378	179	83	181	821	227	1,370
Balance of provision for credit losses[2]	-	-	24	39	138	201	101	302
Debt balance, net	**322**	**378**	**155**	**44**	**43**	**620**	**126**	**1,068**

(1) With respect to interest on amounts in arrears.

(2) Excludes balance of provision for interest.

(3) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.

(4) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

Credit risk mitigation

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

	As of September 30, 2014				
		Exposure covered by guarantees[2]			
	Gross credit exposure[1]	Amounts deducted	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	34,058	(270)	1,092	(15)	34,865
Public sector entity debt	1,123	(251)	270	(142)	1,000
Banking corporation debt	4,195	(8)	448	(2)	4,633
Corporate debt	72,072	(620)	-	(9,401)	62,051
Debt secured by commercial real estate	3,215	(23)	-	(312)	2,880
Retail exposure to individuals	25,627	(1)	-	(2,086)	23,540
Loans to small businesses	9,579	(637)	-	(1,811)	7,131
Residential mortgages	98,624	-	-	(91)	98,533
Other assets	4,523	-	-	-	4,523
Total	**253,016**	**(1,810)**	**1,810**	**(13,860)**	**239,156**

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

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

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

	As of December 31, 2013				
		Exposure covered by guarantees[2]		Exposure covered	
	Gross credit exposure[1]	Amounts deducted	Amounts added	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 and liquidity risk.

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

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

	As of September 30, 2014					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives after impact of add-on factor	144	1,212	-	1	-	1,357
Positive fair value of financial derivatives[1]	347	1,489	786	1	-	2,623
Total exposure with respect to derivatives	**491**	**2,701**	**786**	**2**	**-**	**3,980**
Collateral with respect to derivatives (before safety factors)	(75)	(647)	(1,078)	(1)	-	(1,801)
Impact of safety factors on collateral	2	118	545	-	-	665
Total current credit exposure after credit risk mitigation	**418**	**2,172**	**253**	**1**	**-**	**2,844**

	As of December 31, 2013					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives after impact of add-on factor	164	1,030	-	1	2	1,197
Positive fair value of financial derivatives[1]	307	935	514	1	-	1,757
Total exposure with respect to derivatives	**471**	**1,965**	**514**	**2**	**2**	**2,954**
Collateral with respect to derivatives (before safety factors)	(178)	(301)	(780)	(1)	-	(1,260)
Impact of safety factors on collateral	2	21	447	-	-	470
Total current credit exposure after credit risk mitigation	**295**	**1,685**	**181**	**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 8.A to the financial statements.

Securitization

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

As of September 30, 2014, September 30, 2013 and December 31, 2013, the Bank had no investments with securitization exposure.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 3 million, and investment in non-public shares amounting to NIS 169 million.

	As of September 30, 2014	
NIS in millions	Fair value	Capital requirement(1)
Shares	66	8
Venture capital / private equity funds	106	13
Total equity investment in bank portfolio	**172**	**21**

	As of December 31, 2013	
NIS in millions	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.

The Bank focuses on 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.

Interest risk in Bank portfolio

Interest risk in the Bank's bank portfolio is monitored on a regular basis, 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):

	September 30, 2014					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(735)	137	177	(14)	(7)	(442)
2% decrease	466	(306)	2	4	4	170

	September 30, 2013					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(139)	(431)	82	(10)	(6)	(504)
2% decrease	201	336	(13)	4	4	532

	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 its activity.

The VaR (Value at Risk) model

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

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

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

	First nine months	First nine months	All of
	2014	2013	2013
At end of period	219	198	197
Maximum value during period	(JUN) 235	(JUL) 229	(JUL) 229
Minimum value during period	(JAN) 162	(MAR) 146	(MAR) 146

Back-testing of the historical-analytic VaR model shows that in the year ended September 30, 2014 there were no cases in which the daily loss exceeded the forecasted VaR value.

Basis risk

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 September 30, 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	735.7	367.9	(367.9)	(735.7)	107.4	(63.3)
Dollar	14.1	3.2	(3.9)	(27.7)	1.3	(1.2)
Pound Sterling	4.9	2.1	(0.5)	(3.3)	1.2	(0.1)
Yen	0.3	0.1	0.2	0.9	0.1	0.1
Euro	7.3	1.3	4.8	14.4	0.7	2.3
Swiss Franc	(0.4)	(0.4)	0.7	1.5	(0.3)	0.9

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

Interest risk

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries (NIS in millions) is as follows:

Fair value of financial instruments before impact of hypothetical changes in interest rates:

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
September 30, 2014						
Financial assets[1]	114,878	56,133	13,027	3,864	1,827	189,729
Amounts receivable with respect to financial derivatives[3]	75,123	3,871	68,153	11,684	6,144	164,975
Financial liabilities[1]	(103,135)	(42,292)	(28,458)	(4,973)	(2,754)	(181,612)
Amounts payable with respect to financial derivatives[3]	(85,041)	(10,922)	(52,801)	(10,582)	(5,324)	(164,670)
Total	**1,825**	**6,790**	**(79)**	**(7)**	**(107)**	**8,422**
December 31, 2013						
Financial assets[1]	103,110	54,401	12,880	3,484	1,778	175,653
Amounts receivable with respect to financial derivatives[3]	65,800	3,829	44,409	10,692	4,285	129,015
Financial liabilities[1]	(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	**1,090**	**6,447**	**144**	**(27)**	**(17)**	**7,637**

Net fair value of financial instruments, after impact of changes in interest rates[4]:

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
September 30, 2014								
Change in interest rates:								
Concurrent immediate increase of 1%	2,010	6,670	(124)	8	(116)	8,448	26	0.3
Concurrent immediate increase of 0.1%	1,874	6,774	(85)	(6)	(108)	8,449	27	0.3
Concurrent immediate decrease of 1%	1,565	6,891	(24)	(14)	(97)	8,321	(101)	(1.2)
December 31, 2013								
Change in interest rates:								
Concurrent immediate increase of 1%	1,310	6,296	106	(51)	(22)	7,639	2	-
Concurrent immediate increase of 0.1%	1,116	6,433	139	(30)	(17)	7,641	4	0.1
Concurrent immediate decrease of 1%	743	6,586	183	(1)	(12)	7,499	(138)	(1.8)

(1) Includes complex financial instruments. Excludes balance sheet balances of derivatives and fair value of off-balance sheet financial instruments.
(2) Includes Israeli currency linked to foreign currency.
(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.

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 term to maturity method in measuring interest risk, and the Delta Plus method in measuring option risk. This method quantifies the risk associated with operations of the option portfolio based on the "Greek letter" 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 September 30, 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)	-	77	77	-	51	51
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	35	35	-	25	25
Total market risk	**-**	**112**	**112**	**-**	**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, whose revision became effective in July 2013. In conjunction with this application, the Bank applies internal system-wide integrated extreme scenarios in Israeli currency and in foreign currency for a one-month term. This is based on behavioral attributes of depositors and on risk focal points, in line with the various scenarios. The Board of Directors specified restrictions on the Liquidity Coverage Ratio (LCR) - a ratio which reflects liquid means for anticipated financing needs - under these scenarios and for the survival horizon in the normal course of business, as well as restrictions and guidelines on concentration and other stress scenarios for periods shorter or longer than one month. The Bank maintains liquid means, including cash and current accounts with the Bank of Israel and a high-quality, liquid debenture portfolio which may be immediately realized; the emergency plan includes additional liquid means which may be activated under each scenario. The liquidity ratios are calculated daily based on the current composition of liabilities and liquid means. There is also daily monitoring of internal and external indicators which may point to a liquidity crunch.

The Bank has a Liquidity Forum, under the responsibility of the Finance Division, which meets daily 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 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.

There were no deviations from the Board of Directors’ limitations recorded in the first nine months of 2014.

Concurrently with management of liquidity risk based on an internal model, the Bank is preparing to apply and manage the minimum liquidity coverage ratio as specified in the Bank of Israel's Proper Conduct of Banking Business Regulation 221, which will become effective in April 2015. This regulation adopts the Basel III recommendation with regard to the liquidity coverage ratio, adapting it to the banking system in Israel.

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

Operating risk

Basel II provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II directives explicitly defined operating risk as the risk of loss due to failure or inappropriateness of internal procedures, people, systems or external events. Furthermore, the Basel II first layer includes capital requirements for operating risk. For details of the Basel II directives, see the chapter on Legislation and Supervision of Bank Group Operations below. In the third quarter of 2014, the Bank completed a review of its handling of operating risk, including handling of fraud and embezzlement, in view of evolving common practice around the world in recent years. The Bank framework for handling operating risk includes collection of actual loss data, debriefing of any case of failure, conducting surveys at different Bank units, development of stress testing in case of extreme operating risk event, maintaining a training regime - partly through a special forum created for operating risk officers in the Bank's different units, review of the need to specify KRIs for key processes carried out at the Bank and other actions in line with requirements stipulated by Regulation 350 and the evolving global framework. Operating risk operations are supported by a central computer system - PSTL (Operating Risk Portal), which is currently being upgraded, with emphasis on immediate reporting to various Bank units.

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 identity of the counter-party, from creation of collateral etc.) as well as specific risk attributes while reviewing risk level and exposure, with attention to the different lines of business at the Bank.

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these updates. The Legal Division provides regular counsel to different Bank units, including to some subsidiaries. This is done, *inter alia*, by providing opinion, editing and updating legal documents, support for updates to procedures etc.

The Bank has specified procedures to help in minimizing legal risk, including regulating the interface between the Legal Division and different Bank departments. The Legal Division is also involved in the various processes in the branches, at the Bank's Training Center and in compiling professional eLearning kits for imparting the legal knowledge required for regular Bank operations.

Similar reference is made for Bank affiliates overseas (branches and subsidiaries), with these affiliates receiving assistance from local external attorneys approved by the Bank's Legal Division. The Bank's overseas subsidiaries and affiliates have adopted similar procedures with regard to management of legal risk, and provide immediate and quarterly reports to the Legal Risk Manager of the Bank with regard to any legal risk identified in these entities.

Compliance

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

The Manager, Risk Control Division and CRO of the Bank serves as the person in charge of enforcement of securities law and anti-trust law. As required by Proper Conduct of Banking Business regulation 308 ("Compliance Officer"), the Bank appointed a Chief Compliance Officer (reporting to the Manager, Risk Control Division) whose role is to assist Bank management and the Board of Directors in effective management of compliance risk.

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

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risk Control Division, is also in charge of compliance with the Prohibition of Money Laundering Act, and the Prohibition of Financing Terrorism Act for the Bank Group, including at 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 administered in 2012 and is being administered in 2014.

The Bank operates different computer systems for identifying unusual activity and for monitoring the handling of subjective reports.

The Bank applies its policies in this area on a Group basis, with required changes, as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risk	Low-medium	**Manager, Business Division**
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Intermediate	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low	**Manager, Financial Division**
Interest risk	Low	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	**Manager, Financial Division**
Operating risk	Low	**Manager, Risk Control Division**
Compliance risk	Intermediate	**Manager, Risk Control Division**
Anti-money laundering risk	Low-medium	**Manager, Risk Control Division**
Legal risk	Low	**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**

(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 factors:

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

The ICAAP process accounts for both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process. In the fourth quarter of 2013, as an integral part of the ICAAP process and ahead of approval of the ICAAP document in May 2014, 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 the quality of managing it, 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 the fourth quarter of 2013.

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 (as monthly profit); medium risk is defined as potential for loss not to exceed 6% of Bank capital (as 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.

Significant Events in the Bank Group's Business

Terms of office and employment of the Bank President

On June 10, 2014, the General Meeting of Bank shareholders approved the terms of office and employment of the Bank President, including approval of the remuneration plan for the Bank President which includes a monetary bonus and equity-based remuneration by way of option allotment plan in accordance with a private offering. For further information, see Note 14.E. to the financial statements.

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 following 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. For further information, see Note 14.C. to the financial statements.

Remuneration policy for all Bank employees other than officers

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.

The terms of office or employment of Bank employees include fixed and variable remuneration, as is 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.

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 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. For further information, see Note 14.F. to the financial statements.

Bank share buy-back

Further to the aforementioned stock option plans, 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 14.E.-F. to the financial statements).

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions determined between the Bank and the Supervisor of Banks. Such share buy-back would be made subject to approval by the Bank Board of Directors.

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

Prior to a dividend distribution over Buy-back of Bank shares, the Supervisor of Banks would review the Bank's overall plan for dividend distribution and its consistency with Bank capital planning and operations.

After such review by the Supervisor of Banks, future dividend distributions would be decided by the Board of Directors, subject to Bank policy and regulatory limitations.

Legislation and Supervision of Bank Group Operations

Laws and regulations

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2010, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US tax payers.
According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.
Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US Source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to:

- Reduce tax avoidance by US persons using 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 these, as part of continuing preparations for implementation of the Act as from mid-2014.
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 for application of this agreement have yet to be enacted by the State of Israel.

The Bank implements the relevant statutory provisions in accordance with schedules stipulated in legislation, based on the signed agreement and in conformity with directives of the Supervisor of Banks and of the Ministry of Finance.

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 from it and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

The reform classified financial entities by scope of trading and imposes obligations based on this classification (swap dealer, MSP etc.)

The rules stipulated in the reform apply to US entities and to non-US entities which conduct transactions of significant volume (as defined in the reform) with US entities. In view of the reform, such entities would not be able to conduct transactions involving the types of derivatives included in the Act with other financial entities (even those not subject to the Act, such as the Bank) - unless they comply with provisions of the Act.

Provisions of the Act gradually became effective, and today many transactions in OTC derivatives with US banks and with banks which are Swap Dealers or MSPs, require compliance with provisions of the Act, including with regard to settlement.

The Bank is preparing to apply the relevant provisions of the reform so as to be able to conduct transactions involving OTC derivatives with entities subject to the Act.

Concurrently with the Dodd Frank reform launched in the USA, a similar reform was launched in Europe -
European Market Infrastructure Regulation. (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 in early 2015. Legislation for application of this reform has yet to be completed and its full impact on foreign financial institutions has yet to be clarified.

The Bank is preparing to apply the provisions of this reform which apply to it.

Deficit Reduction and Tax Burden Modification Act (Legislative amendments), 2012

The amendment to the Act, dated August 2012, stipulates that the rate of social security payable by employers would gradually increase from 2013 to 2015, by 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 01, 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% and 7.5%, respectively, as specified in August 2012. The social security fee as from January 2016 would be 7.5%, 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 determined 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 commission bundles to the price list for individuals and small businesses, 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) as 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 stated 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.

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 the Act 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).

The following are major new obligations imposed - which the Bank is currently preparing to apply and deploy:

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; keeping of written or signed client instructions in original format rather than in scanned format.

The Bank applies these amendments as from their effective start date.

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 its breach.

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.

Note that master sales contracts for projects assisted by the Bank are reviewed to ensure that they are free of any contingencies which may impact the Bank's rights and to verify, in general, that these are not in contravention of cogent statutory provisions.

Application of this Act 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.

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 such suspect activity and to report it as required.

Notice with regard to setting denomination, layout, content and other attributes of banknotes

On July 14, 2014, the Governor of the Bank of Israel announced that, pursuant to their authority in conformity with the Bank of Israel Act and after approval by the Executive Board and by the Government, the denomination, composition, weight and layout and other attributes of banknotes with denominations of NIS 50 and NIS 200 were specified. In September 2014, the NIS 50 banknote was replaced.

The Bank is acting in conformity with the Bank of Israel directives on this matter.

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 will become effective on February 23, 2015.
The Bank is preparing to apply the amendment to the Ordinance.
Application of the amendment to the Ordinance is not expected to materially impact 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 (hereifter: "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 from the 1st anniversary of issuing the ordinance, at least 2% (and from its 2nd anniversary - at least 3%) of their staff are persons with disabilities. They are also required to appoint an officer responsible for employment of persons with disabilities in order to apply provisions of the ordinance and for optimal integration of such persons in the workplace.

Application of the ordinance is not expected to impact the Bank's financial statements.

Supervisor of Banks

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 described 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 compiled in conformity with requirements of the GRI:G4 standard.

The Bank is currently reviewing the issues to be reported, identifying those issues which are material for external stakeholders while concurrently reviewing those issues which are material for the Bank.

The Bank's Corporate Accountability Report is available on its website: www.Mizrahi-tefahot.co.il/eh ›› Corporate Social Responsibility Report

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:

After the schedule for the 2013 annual report was shortened by 10 days, the deadline for its publication is set at March 20, 2014;

The 2014 annual report will be made public by March 10, 2015.

The 2015 annual report and annual reports thereinafter would be made public no later than two months after the balance sheet date.

Quarterly financial statements - in 2014 would be published no later than 55 days after the balance sheet date; in 2015, 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 quarterly financial statements in 2014 and is preparing to issue its annual financial statements for 2015 and 2016 by the specified schedule.

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 five 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 applies this regulation.

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 April 27, 2014, the Supervisor of Banks issued draft amendments to Regulation 311 with regard to the credit control function and its location within the banking corporation. The amendments, if passed, should become effective as from January 1, 2015.

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 applies this regulation. Application of this regulation 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 7 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 applies this regulation. 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 applies this regulation. 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 derivative transactions, which reflects the future potential exposure over the remaining term of the contract. The regulation would apply retroactively with regard to reduced weighting for guarantees pursuant to the Apartment Sale Act; as for OTC derivative transactions, the regulation would become effective as from January 1, 2014. As a consequence of this regulation, amendments were made to Regulation 315 "Provision for doubtful debts". The Bank applies this regulation. 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 applies this regulation. 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 it includes. 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 determined by 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 stated 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 August 18, 2013, reference 2013-01-119877. 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 further details, see above the chapter on Significant Events in the Bank Group's Business.

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 to the regulation, 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 regulation is its publication date. The Bank applies the amendment to the regulation. Application of this amendment 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. 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 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. The Bank is preparing to implement this regulation.

Proper Conduct of Banking Business Regulation 329 concerning "Restrictions on provision of housing loans"

On July 15, 2014, the Supervisor of Banks issued a circular with regard to restrictions on provision of housing loans. The circular incorporates the guidelines and limits set by the Supervisor of Banks in recent years on various matters - in a single, binding document. The circular also redefines the term "repayment ratio" and limits the loan amount qualifying for a lower risk weighting, pursuant to Proper Conduct of Banking Business Regulation 203, to NIS 5 million. Any loan exceeding this amount would be weighted at 100% for calculation of risk assets. The start date for the different limits is as determined in letters from the Supervisor of Banks superseded by the circular. The additional requirements would apply to housing loans approved in principle from the earliest possible date but no later than October 1, 2014.
On September 28, 2014, the Supervisor of Banks issued a circular amending Proper Conduct of Banking Regulation 329 concerning restrictions on housing loans, as well as a Q&A file on this issue. The circular includes two amendments to the regulation:

- Increase of the target ratio of common equity Tier I capital to risk elements by including an additional percentage which reflects 1% of outstanding housing loans. The target ratio is to be increased by fixed quarterly rates as from January 1, 2015 through January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest - risk weighting of leveraged loans bearing variable interest will be decreased from 100% to 75%.

Application of this directive is expected to increase the target ratio of common equity Tier I capital to risk elements by 0.1% for each of the eight quarters as from the effective start date of this directive and by a total of 0.8% upon complete implementation thereof.

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 preparing to implement these directives.

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 directive 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 Regulations on "Liquidity coverage ratio" and on "Liquidity risk management"

On September 28, 2014, the Supervisor of Banks issued a new Proper Conduct of Banking Business Regulation 221 "Liquidity Coverage Ratio”.

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

On the same date, the Supervisor of Banks issued amendments to Public Reporting Regulations which stipulate, *inter alia*, disclosure requirements under Basel Pillar 3 in the Board of Directors’ Report and disclosure requirements with regard to the liquidity coverage ratio in the Capital Adequacy note to the financial statements.

In addition, on September 30, 2014, the Supervisor of Banks issued a Q&A file for the new regulation.

The existing Proper Conduct of Banking Business Regulation 342 “Liquidity Risk Management” was amended and would apply in the transition period, as described below.

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

- Definition of Liquidity Coverage Ratio (LCR) as the ratio of
  High-Quality Liquid Assets (HQLA) to total cash outflow, net under extreme 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 ration shall be regularly applied, on a daily basis, for all currencies pooled together as well as separately for foreign currency.

This regulation shall be applied to Bank data as well as on 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 apply these regulations.

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 specific 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.

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 and application of some easements listed in Proper Conduct of Banking Business regulation 355 "Business Continuity Management".

Furthermore, due to uncertainty with regard to likelihood of collection created by 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 a 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.

Draft Supervisor of Banks' directives on group-based provision for credit losses

On April 10, 2013, the Supervisor of Banks issued draft directives on the group-based provision for credit losses. The draft includes, *inter alia*, an interim directive "Group-based provision for credit losses", which supersedes the interim directive on "Group-based provision for credit losses in 2011-2012". For details of this draft, see Note 1.D.1. to the financial statements. By the issue date of these financial statements, the final directives on this matter have yet to be issued.

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

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2013.

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

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

Results of the capital assessments conducted within this document, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed, 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, 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 will apply to annual financial statements as from January 1, 2014.

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 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 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. The core capital ratio should be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks.

On July 23, 2012, the Bank Board of Director 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.

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 equity 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 5 to the financial statements.

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

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.

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

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

For information about buy-back of Bank shares, see chapter "Significant events in the Bank Group's business" above.

On September 28, 2014, the Supervisor of Banks issued a circular amending Proper Conduct of Banking Regulation 329, as well as a Q&A file on this issue.

The circular includes two amendments to the regulation:

- Increase of capital target - increase of the target ratio of common equity Tier I capital to risk elements by including an additional percentage which reflects 1% of outstanding housing loans.
  The target ratio is to be increased by fixed quarterly rates as from January 1, 2015 through January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest - risk weighting of leveraged loans bearing variable interest will be decreased from 100% to 75%.

Application of this directive is expected to increase the target ratio of common equity Tier I capital to risk elements by 0.1% for each of the eight quarters as from the effective start date of this directive and by a total of 0.8% upon complete implementation thereof.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 7.C.(2-5) to the financial statements.

Demand to produce documents to US authorities and indictment against former employee in Los Angeles

On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding it produce documents related to a Bank employee and to a Bank employee who retired five years ago, as well as to banking services provided at the Los Angeles branch, provided that such documents are available at the Bank branch in Los Angeles. The Los Angeles branch is acting to provide the required documents.

On April 30, 2014, an indictment was filed with the Court in Los Angeles against the Bank employee in Los Angeles who has retired; the indictment alleges , *inter alia*, that the employee aided US clients of the Bank to avoid tax payment. The Bank is not named on the indictment and is referred to as Bank A of Tel Aviv, with no violation attributed to the Bank.

On July 25, 2014, the Bank was required by US authorities to provide additional statistical information with regard to the Bank Group.

On September 19, 2014, the Bank was required by US Authorities to provide additional statistical information.

On October 28, 2014, the Los Angeles Court started hearing of the trial against the aforementioned retired Bank employee, and on October 31 he was acquitted of all charges.

The Bank is cooperating with US authorities in conformity with statutory provisions and continued to provide the required statistical information. To this end, the Bank has engaged the services of external consultants and experts.

The Bank reports these events from time to time to the Supervisor of Banks.

The Bank and Mizrahi Bank Switzerland are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group. At this stage, based on the opinion of the Bank's legal counsel, it is not possible to assess the likelihood of the Bank realizing a loss due to these events, nor the related exposure amounts or the extent of such exposure.

See Note 7.C.5 to the financial statements for additional information.

Determination by the Restrictive Trade Practices Authority

For information about an arrangement reached by the banks and the Anti-Trust Supervisor, see Note 7.C.4 to the financial statements.

Other Matters

The Independent Auditor, in their review letter, has drawn attention to Note 7.C.3 to the financial statements with regard to claims filed against the Bank, including claims accompanied by motions for class action status.

Bonus to Chairman of the Bank Board of Directors

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 1,017 thousand. (For details of the formula for the annual monetary bonus payable to the Chairman of the Board of Directors, see the 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.
The reasons cited by the Remuneration Committee and the Board of Directors noted the Chairman's considerable contribution to implementation of corporate governance principles at the Bank and the efficient operation of the Bank Board of Directors; they also noted the professional and appropriate manner in which the Chairman discharged hisr role, the Chairman's involvement in control of risk management at the Bank and the Chairman's understanding of issues facing the Board of Directors as well as the Chairman's contribution to Board discussions.

Bonus to the Bank's former Chairman

Terms of the non-recurring bonus to the Bank's former Chairman with respect to 2012 were discussed and approved by the Remuneration Committee at its meeting on December 30, 2013; these were discussed and approved by the Bank Board of Directors at its meeting on February 17, 2014 - 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 the 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.

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

On September 15, 2014, the Bank Board of Directors resolved, after approval by the Remuneration Committee dated September 8, 2014, to approve payment of annual remuneration and meeting attendance remuneration to members of the Bank 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 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 Board of Directors other than external Board members, including Board members who are controlling shareholders of the Bank. For more information, see 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.

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 manages 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, another company announced its intention to transfer its assets to be operated by another company in the fourth quarter of 2014.

Concurrently with changes in the 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 (on consolidated basis) as of September 30, 2014 operated provident funds amounting to NIS 77 billion, compared to NIS 64 billion at the end of 2013 (NIS 46 billion excluding Bank Yahav).

Computer services for Bank Yahav

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

As of the signing date of the financial statements, Bank Yahav receives computer and operating services from Bank HaPoalim Ltd. 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's Board of Directors approved contracting with an international company for creating a core banking system and receiving outsourced services for such system. The company selected has an advanced solution for core banking services (BANCS), including provision of outsourced services to many banks and financial institutions throughout the world.

On April 7, 2014, Bank Yahav signed an agreement with the company and the project is under way.

As part of this project, special emphasis is placed on project risk management, in order to identify the various risk factors in different project stages and to monitor their mitigation process.

Bank Yahav is assisted by external consultants in management of this process and is aware of the fact that the international company engaged to carry out this project has hired the services of an Israeli consulting company for adapting its international system for Israel.

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

On April 30, 2014, a collective bargaining agreement was signed by management of Mizrahi-Tefahot Technology Division Ltd. and the employee representatives, 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.

On June 2, 2014, a collective bargaining agreement was signed by management of Mizrahi-Tefahot Technology Division Ltd., the employee representatives and the trade union. This agreement primarily concerns the final settlement with respect to pay advances for previous years, details of student employment by special contract, in line with the aforementioned agreement in principle, a voluntary retirement plan and termination of the labor dispute with regard to pay.

Wage agreement with the Managerial Council

On June 16, 2014, a wage agreement was concluded with the Managerial 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, a contribution to a study fund with respect to vacation pay, extension of the agreements on other matters and ensuring that labor unrest is avoided through December 31, 2017.

Senior Officers

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, 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. The appointment will become effective on January 1, 2015.

Internal Auditor

Details of the internal audit within the Group, including the professional standards applied by the internal audit, the annual and multi-annual work plan and the considerations in its determination, the extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2013 financial statements. No material changes occurred in these details during the reporting period.

Accounting Policies on Critical Matters

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) for interim periods, and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. Highlights of accounting policies are specified in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2013.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The Bank's 2013 financial statements include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, share-based payment transactions, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

As from January 1, 2014, the Bank applies generally acceptable accounting practices by US banks for measurement of interest revenues. These rules were adopted pursuant to a circular from the Supervisor of Banks dated December 29, 2011, which stipulates rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria described in the directive would not be immediately recognized on the statement of profit and loss, but rather would be accounted for in calculating the effective interest rate for the loan.
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.
For information about the Supervisor of Banks' draft directives with regard to the group-based provision for credit losses, see Note 1.D.1 to the financial statements.
For information about the Supervisor of Banks’ circular concerning adoption of US accounting rules with regard to employee rights, see Note 1.D.2 to the financial statements.
Other than the foregoing, during the reported period there were no changes to the Bank’s accounting policies on critical issues, which are listed in the Board of Directors' report on the financial statements as of December 31, 2013.

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 stated in the Board of Directors' report as of December 31, 2013 (for changes in 2014, see chapter "Board of Directors" below). The processes of preparing, auditing and approving the financial statements involve additional organs and officers as mentioned below.

The Bank’s 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 Board of Directors.

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors’ Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank’s ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of Bank executives, see the chapter on Bank management on the financial statements as of December 31, 2013 (for changes in 2014, see chapter "Senior Officers" above).

The process of providing 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 committees have the following members: Manager, Business Division; 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 appropriate classification and provision for each client. The committee also discusses the group-based provision for various economic sectors. The outcome of such discussion determines the required adjustments to historical 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; 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 Board of Directors chapter on the December 31, 2013 financial statements).

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 President, 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, the CRO 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, such 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 their 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 President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

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

Board of Directors

During the first nine months of 2014, the Bank Board of Directors held 10 plenary meetings. During this period there were also 49 meetings of Board committees and 3 Board member workshops.
On September 15, 2014, Mr. Moshe Wertheim announced his resignation from the Bank Board of Directors. Upon his resignation, the number of Board members is 13. The number of Board members having accounting and financial qualifications is 10.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American Sarbanes Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is part of an overall policies regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, inter alia, certification by the Chairman of the Board of Directors, the Bank President and Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2013.

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

At the end of the period covered by this Report, the Bank's management, together with the President and Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the President 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 quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

During the quarter ended September 30, 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 control over financial reporting.

Moshe Vidman	Eldad Fresher
Chairman of the Board of Directors	President

Ramat Gan, November 17, 2014

Management Discussion of Group Business and Operating Results

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Management Discussion - Addendum A

Revenue and Expense Rates – Consolidated [(1)]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Average balance[(2)]	Interest revenues	Revenue rate	Average balance[(2)]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[(3)]						
In Israel	142,060	[(7)]1,405	4.02	131,960	[(7)]1,918	5.94
Outside of Israel	2,398	17	2.87	2,498	21	3.41
Total	**144,458**	**1,422**	**4.00**	**134,458**	**1,939**	**5.89**
Loans to the Government						
In Israel	288	2	2.81	303	3	4.02
Outside of Israel	-	-	-	-	-	-
Total	**288**	**2**	**2.81**	**303**	**3**	**4.02**
Deposits with banks						
In Israel	1,597	2	0.50	1,782	23	5.26
Outside of Israel	220	1	1.83	377	8	8.76
Total	**1,817**	**3**	**0.66**	**2,159**	**31**	**5.87**
Deposits with central banks and cash						
In Israel	20,833	20	0.38	17,013	44	1.04
Outside of Israel	1,792	-	-	1,439	1	0.28
Total	**22,625**	**20**	**0.35**	**18,452**	**45**	**0.98**
Securities loaned or sold in repurchase agreements						
In Israel	140	-	-	83	-	-
Outside of Israel	-	-	-	-	-	-
Total	**140**	**-**	**-**	**83**	**-**	**-**
Debentures held to maturity and available for sale[(4)]						
In Israel	7,984	17	0.85	5,339	30	2.27
Outside of Israel	1,096	4	1.47	1,171	4	1.37
Total	**9,080**	**21**	**0.93**	**6,510**	**34**	**2.11**
Debentures held for trading[(5)]						
In Israel	1,024	1	0.39	651	6	3.74
Outside of Israel	-	-	-	-	-	-
Total	**1,024**	**1**	**0.39**	**651**	**6**	**3.74**
Total interest-bearing assets	**179,432**	**1,469**	**3.32**	**162,616**	**2,058**	**5.16**
Receivables for credit card operations	2,937			2,842		
Other non-interest bearing assets[(6)]	6,235			5,260		
Total assets	**188,604**			**170,718**		
Total interest-bearing assets attributable to operations outside of Israel	**5,506**	**22**	**1.61**	**5,485**	**34**	**2.50**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated [1]

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Average balance[2]	Interest expenses	Expense rate	Average balance[2]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	5,462	5	0.37	4,096	4	0.39
Term deposits	121,081	364	1.21	112,932	726	2.60
Outside of Israel						
On-call	106	-	-	41	-	-
Term deposits	3,017	7	0.93	3,997	9	0.90
Total	**129,666**	**376**	**1.16**	[11]**121,066**	**739**	**2.46**
Deposits from the Government						
In Israel	55	1	7.47	87	1	4.68
Outside of Israel	-	-	-	-	-	-
Total	**55**	**1**	**7.47**	**87**	**1**	**4.68**
Deposits from banks						
In Israel	1,494	4	1.08	2,294	10	1.76
Outside of Israel	73	-	-	11	-	-
Total	**1,567**	**4**	**1.02**	**2,305**	**10**	**1.75**
Debentures and subordinated notes						
In Israel	19,101	195	4.15	15,143	303	8.25
Outside of Israel	-	-	-	-	-	-
Total	**19,101**	**195**	**4.15**	**15,143**	**303**	**8.25**
Total interest-bearing liabilities	**150,389**	**576**	**1.54**	**138,601**	**1,053**	**3.07**
Non-interest bearing deposits from the public	18,450			[11]14,548		
Payables for credit card transactions	2,937			2,842		
Other non-interest bearing liabilities[8]	5,737			4,779		
Total liabilities	**177,512**			**160,770**		
Total equity	**11,092**			**9,948**		
Total liabilities and equity	**188,604**			**170,718**		
Interest margin			**1.77**			**2.09**
Net return[9] on interest-bearing assets						
In Israel	173,926	878	2.03	157,131	980	2.52
Outside of Israel	5,506	15	1.09	5,485	25	1.84
Total	**179,432**	**893**	**2.01**	**162,616**	**1,005**	**2.50**
Total interest-bearing liabilities attributable to operations outside of Israel	**3,196**	**7**	**0.88**	**4,049**	**9**	**0.89**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated [1]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	139,351	[7]3,844	3.69	129,033	[7]4,788	4.98
Outside of Israel	2,245	73	4.36	2,591	77	3.98
Total	**141,596**	**3,917**	**3.71**	**131,624**	**4,865**	**4.96**
Loans to the Government						
In Israel	298	7	3.14	310	7	3.02
Outside of Israel	-	-	-	-	-	-
Total	**298**	**7**	**3.14**	**310**	**7**	**3.02**
Deposits with banks						
In Israel	1,478	7	0.63	1,891	33	2.33
Outside of Israel	243	3	1.65	338	11	4.36
Total	**1,721**	**10**	**0.78**	**2,229**	**44**	**2.64**
Deposits with central banks and cash						
In Israel	22,628	99	0.58	14,909	132	1.18
Outside of Israel	1,211	-	-	1,603	2	0.17
Total	**23,839**	**99**	**0.55**	**16,512**	**134**	**1.08**
Securities loaned or sold in repurchase agreements						
In Israel	204	1	0.65	111	1	1.20
Outside of Israel	-	-	-	-	-	-
Total	**204**	**1**	**0.65**	**111**	**1**	**1.20**
Debentures held to maturity and available for sale[4]						
In Israel	5,794	45	1.04	5,939	95	2.14
Outside of Israel	1,089	12	1.47	1,284	13	1.35
Total	**6,883**	**57**	**1.11**	**7,223**	**108**	**2.00**
Debentures held for trading[5]						
In Israel	777	8	1.38	723	16	2.96
Outside of Israel	-	-	-	2	-	-
Total	**777**	**8**	**1.38**	**725**	**16**	**2.95**
Total interest-bearing assets	**175,318**	**4,099**	**3.13**	**158,734**	**5,175**	**4.37**
Receivables for credit card operations	2,897			2,964		
Other non-interest bearing assets[6]	6,269			5,120		
Total assets	**184,484**			**166,818**		
Total interest-bearing assets attributable to operations outside of Israel	**4,788**	**88**	**2.46**	**5,818**	**103**	**2.37**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013		
	Average balance(2)	Interest expenses	Expense rate	Average balance(2)	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	5,285	10	0.25	4,087	7	0.23
Term deposits	119,923	1,075	1.20	109,709	1,760	2.14
Outside of Israel						
On-call	61	-	-	9	-	-
Term deposits	3,276	22	0.90	4,100	32	1.04
Total	**128,545**	**1,107**	**1.15**	(11)**117,905**	**1,799**	**2.04**
Deposits from the Government						
In Israel	58	2	4.62	97	4	5.54
Outside of Israel	-	-	-	-	-	-
Total	**58**	**2**	**4.62**	**97**	**4**	**5.54**
Deposits from banks						
In Israel	1,506	15	1.33	2,326	33	1.90
Outside of Israel	62	-	-	19	1	7.08
Total	**1,568**	**15**	**1.28**	**2,345**	**34**	**1.94**
Debentures and subordinated notes						
In Israel	18,032	446	3.31	14,817	658	5.96
Outside of Israel	-	-	-	-	-	-
Total	**18,032**	**446**	**3.31**	**14,817**	**658**	**5.96**
Total interest-bearing liabilities	**148,203**	**1,570**	**1.41**	**135,164**	**2,495**	**2.47**
Non-interest bearing deposits from the public	17,286			(11)14,031		
Payables for credit card transactions	2,897			2,964		
Other non-interest bearing liabilities(8)	5,314			4,979		
Total liabilities	**173,699**			**157,138**		
Total equity	**10,785**			**9,680**		
Total liabilities and equity	**184,484**			**166,818**		
Interest margin			**1.71**			**1.90**
Net return(9) on interest-bearing assets						
In Israel	170,530	2,463	1.93	152,916	2,610	2.28
Outside of Israel	4,788	66	1.84	5,818	70	1.61
Total	**175,318**	**2,529**	**1.93**	**158,734**	**2,680**	**2.26**
Total interest-bearing liabilities attributable to operations outside of Israel	**3,399**	**22**	**0.86**	**4,127**	**33**	**1.07**

See remarks below.

Management Discussion - Addendum A - continued
Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

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

	For the three months ended September 30, 2014			For the three months ended September 30, 2013(11)		
	Average balance(2)	Interest revenues (expenses)	Revenue (expense) rate	Average balance(2)	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	106,099	840	3.20	91,277	849	3.77
Total interest-bearing liabilities	87,082	(188)	(0.87)	80,615	(331)	(1.65)
Interest margin			**2.33**			**2.12**
Israeli currency - linked to the CPI						
Total interest-bearing assets	54,423	546	4.07	52,460	1,081	8.50
Total interest-bearing liabilities	37,394	(347)	(3.76)	35,150	(692)	(8.11)
Interest margin			**0.31**			**0.39**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,404	61	1.83	13,394	94	2.84
Total interest-bearing liabilities	22,717	(34)	(0.60)	18,787	(21)	(0.45)
Interest margin			**1.23**			**2.39**
Total - operations in Israel						
Total interest-bearing assets	173,926	1,447	3.37	157,131	2,024	5.25
Total interest-bearing liabilities	147,193	(569)	(1.56)	134,552	(1,044)	(3.14)
Interest margin			**1.81**			**2.11**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated [(1)]

Reported amounts (NIS in millions)

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

	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013[(11)]		
	Average balance[(2)]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[(2)]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	103,419	2,583	3.34	87,687	2,598	3.97
Total interest-bearing liabilities	87,080	(653)	(1.00)	78,612	(955)	(1.62)
Interest margin			**2.34**			**2.35**
Israeli currency - linked to the CPI						
Total interest-bearing assets	53,792	1,228	3.06	51,147	2,218	5.82
Total interest-bearing liabilities	37,204	(801)	(2.88)	35,108	(1,447)	(5.53)
Interest margin			**0.18**			**0.29**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,319	200	2.01	14,082	256	2.43
Total interest-bearing liabilities	20,520	(94)	(0.61)	17,316	(60)	(0.46)
Interest margin			**1.40**			**1.97**
Total - operations in Israel						
Total interest-bearing assets	170,530	4,011	3.15	152,916	5,072	4.45
Total interest-bearing liabilities	144,804	(1,548)	(1.43)	131,036	(2,462)	(2.51)
Interest margin			**1.72**			**1.94**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated [1]

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	For the three months ended September 30, 2014 - compared to the three months ended September 30, 2013			For the nine months ended September 30, 2014 - compared to the nine months ended September 30, 2013		
	Increase (decrease) due to change[10]			Increase (decrease) due to change[10]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	100	(613)	(513)	285	(1,229)	(944)
Outside of Israel	(1)	(3)	(4)	(11)	7	(4)
Total	**99**	**(616)**	**(517)**	**274**	**(1,222)**	**(948)**
Other interest-bearing assets						
In Israel	9	(73)	(64)	39	(156)	(117)
Outside of Israel	-	(8)	(8)	(4)	(7)	(11)
Total	**9**	**(81)**	**(72)**	**35**	**(163)**	**(128)**
Total interest revenues	**108**	**(697)**	**(589)**	**309**	**(1,385)**	**(1,076)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	28	(389)	(361)	99	(781)	(682)
Outside of Israel	(2)	-	(2)	(5)	(5)	(10)
Total	**26**	**(389)**	**(363)**	**94**	**(786)**	**(692)**
Other interest-bearing liabilities						
In Israel	30	(144)	(114)	56	(288)	(232)
Outside of Israel	-	-	-	-	(1)	(1)
Total	**30**	**(144)**	**(114)**	**56**	**(289)**	**(233)**
Total interest expenses	**56**	**(533)**	**(477)**	**150**	**(1,075)**	**(925)**

(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 (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2014 and September 30, 2013, and for the nine-month periods ended September 30, 2014 and September 30, 2013, 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 11 million, NIS 4 million, NIS 21 million and NIS 11 million, respectively.
(5) To the average balance of debentures held for trade, for the three-month periods ended September 30, 2014 and September 30, 2013, and for the nine-month periods ended September 30, 2014 and September 30, 2013, we added the average balance of unrealized gain from adjustment to fair value of debentures held for trade amounting to NIS 0 million, NIS (20) million, NIS (9) million and NIS (2) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 99 million, NIS 68 million, NIS 303 million and NIS 198 million were included in interest revenues for the three-month periods ended September 30, 2014 and September 30, 2013 and for the nine-month periods ended September 30, 2014 and September 30, 2013, 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) Reclassified.

Management Discussion - Addendum B
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	September 30, 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)	90,788	3,075	3,851	4,619	7,094	4,396
Financial derivatives (other than options)	7,063	8,550	24,921	9,320	8,024	10,232
Options (in terms of underlying asset)	1,068	2,428	3,170	133	123	-
Total fair value	**98,919**	**14,053**	**31,942**	**14,072**	**15,241**	**14,628**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	80,641	3,886	6,802	6,296	2,346	2,451
Financial derivatives (other than options)	15,008	19,899	15,562	8,677	6,504	10,557
Options (in terms of underlying asset)	2,775	2,248	3,502	101	123	-
Total fair value	**98,424**	**26,033**	**25,866**	**15,074**	**8,973**	**13,008**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	495	(11,980)	6,076	(1,002)	6,268	1,620
Cumulative exposure in sector	495	(11,485)	(5,409)	(6,411)	(143)	1,477

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 September 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	In years		In %	In years		In %	In years
624	100	331	114,878	2.72	0.82	95,974	3.67	0.54	103,110	3.85	0.59
91	-	-	68,201		1.16	62,753		1.27	60,204		1.25
-	-	-	6,922		0.73	4,550		0.73	5,596		0.73
715	**100**	**331**	**190,001**		**0.94**	**163,277**		**0.83**	**168,910**		**0.83**
482	231	-	103,135	1.08	0.52	94,448	1.22	0.40	100,957	1.31	0.39
85	-	-	76,292		1.40	63,208		1.58	60,545		1.55
-	-	-	8,749		0.85	5,330		0.85	6,318		0.85
567	**231**	**-**	**188,176**		**0.89**	**162,986**		**0.87**	**167,820**		**0.83**
148	(131)	331	1,825			291			1,090		
1,625	1,494	1,825	1,825								

Management Discussion - Addendum B - Continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	September 30, 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)	1,441	2,500	11,348	19,953	13,887	4,967
Financial derivatives (other than options)	384	116	567	755	651	1,398
Total fair value	**1,825**	**2,616**	**11,915**	**20,708**	**14,538**	**6,365**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	1,284	3,100	7,419	12,986	8,267	6,777
Financial derivatives (other than options)	279	1,461	3,843	1,924	2,103	1,304
Total fair value	**1,563**	**4,561**	**11,262**	**14,910**	**10,370**	**8,081**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	262	(1,945)	653	5,798	4,168	(1,716)
Cumulative exposure in sector	262	(1,683)	(1,030)	4,768	8,936	7,220

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 duration(2)	As of September 30, 2013 Total fair value	Internal rate of return	Average effective duration(2)	As of December 31, 2013 Total fair value	Internal rate of return	Average effective duration(2)
				In %	In years		In %	In years		In %	In years
1,741	18	278	56,133	2.14	2.94	54,729	2.47	3.02	54,401	2.36	3.01
-	-	-	3,871		3.32	3,968		3.52	3,829		3.54
1,741	**18**	**278**	**60,004**		**2.96**	**58,697**		**3.05**	**58,230**		**3.04**
2,457	-	2	42,292	1.90	3.71	38,904	1.78	3.39	38,996	1.65	3.74
8	-	-	10,922		1.67	12,614		1.60	12,787		1.54
2,465	**-**	**2**	**53,214**		**3.29**	**51,518**		**2.95**	**51,783**		**3.20**
(724)	18	276	6,790			7,179			6,447		
6,496	6,514	6,790	6,790								

Management Discussion - Addendum B - Continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	September 30, 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
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[2]	8,503	5,790	1,223	1,410	466	905
Financial derivatives (other than options)	24,473	24,284	13,999	4,812	2,561	6,159
Options (in terms of underlying asset)	1,038	4,426	3,956	156	117	-
Total fair value	**34,014**	**34,500**	**19,178**	**6,378**	**3,144**	**7,064**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[2]	16,933	8,502	9,831	544	41	102
Financial derivatives (other than options)	16,316	11,242	20,629	4,445	2,763	5,846
Options (in terms of underlying asset)	971	2,568	3,617	193	117	-
Total fair value	**34,220**	**22,312**	**34,077**	**5,182**	**2,921**	**5,948**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(206)	12,188	(14,899)	1,196	223	1,116
Cumulative exposure in sector	(206)	11,982	(2,917)	(1,721)	(1,498)	(382)

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.

						As of September 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	In years		In %	In years		In %	In years
22	11	388	18,718	1.91	0.84	19,263	2.46	0.58	18,142	2.32	0.55
-	-	-	76,288		1.55	54,781		1.64	53,124		1.62
-	-	-	9,693		0.42	5,236		0.42	6,262		0.42
22	**11**	**388**	**104,699**		**1.32**	**79,280**		**1.30**	**77,528**		**1.27**
9	-	223	36,185	0.40	0.30	29,021	0.18	0.25	28,132	0.25	0.27
-	-	-	61,241		0.95	45,924		1.30	44,137		1.25
-	-	-	7,466		0.44	4,409		0.44	5,159		0.44
9	**-**	**223**	**104,892**		**0.69**	**79,354**		**0.87**	**77,428**		**0.84**
13	11	165	(193)			(74)			100		
(369)	(358)	(193)	(193)								

Management Discussion - Addendum B - Continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	September 30, 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)	-	2	-	-	-	-
Total fair value	**-**	**2**	**-**	**-**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(2)	100,732	11,365	16,422	25,982	21,447	10,268
Financial derivatives (other than options)	31,920	32,950	39,487	14,887	11,236	17,789
Options (in terms of underlying asset)	2,106	6,856	7,126	289	240	-
Total fair value	**134,758**	**51,171**	**63,035**	**41,158**	**32,923**	**28,057**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	98,858	15,488	24,052	19,826	10,654	9,330
Financial derivatives (other than options)	31,603	32,602	40,034	15,046	11,370	17,707
Options (in terms of underlying asset)	3,746	4,816	7,119	294	240	-
Total fair value	**134,207**	**52,906**	**71,205**	**35,166**	**22,264**	**27,037**
Financial instruments, net						
Total exposure to interest rate fluctuations	551	(1,735)	(8,170)	5,992	10,659	1,020
Total cumulative exposure	551	(1,184)	(9,354)	(3,362)	7,297	8,317

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 9a 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 9a 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.

						As of September 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	In years		In %	In years		In %	In years
-	-	-	2	-	-	(1)	-	-	(1)	-	-
-	**-**	**-**	**2**	**-**	**-**	**(1)**	**-**	**-**	**(1)**	**-**	**-**
2,387	129	997	189,729	2.47	1.45	169,966	3.15	1.34	175,653	3.23	1.33
91	-	-	148,360		1.42	121,502		1.51	117,157		1.49
-	-	-	16,617		0.55	9,786		0.56	11,858		0.57
2,478	**129**	**997**	**354,706**		**1.39**	**301,254**		**1.39**	**304,668**		**1.37**
2,948	231	225	181,612	1.14	1.22	162,373	1.17	1.09	168,085	1.21	1.15
93	-	-	148,455		1.24	121,746		1.48	117,469		1.44
-	-	-	16,215		0.66	9,740		0.66	11,478		0.67
3,041	**231**	**225**	**346,282**		**1.20**	**293,859**		**1.24**	**297,032**		**1.24**
(563)	(102)	772	8,424			7,395			7,636		
7,754	7,652	8,424	8,424								

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated

As of September 30, 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	619	197	816	-	-
Industry	6,224	3,213	9,437	-	214
Construction and real estate - construction	9,378	17,417	26,795	17	2
Construction and real estate - real estate operations	1,653	292	1,945	-	3
Power and water	695	398	1,093	3	439
Commerce	6,898	2,147	9,045	-	28
Hotel and food services	581	130	711	-	1
Transport and storage	1,094	392	1,486	-	25
Communications and computer services	1,075	439	1,514	-	13
Financial services	3,762	7,393	11,155	-	1,428
Other business services	2,438	793	3,231	-	4
Public and community services	955	358	1,313	-	31
Total commercial credit risk	**35,372**	**33,169**	**68,541**	**20**	**2,188**
Private individuals - housing loans	94,609	3,991	98,600	-	-
Private individuals - other	14,258	10,601	24,859	-	18
Total	**144,239**	**47,761**	**192,000**	**20**	**2,206**
For borrowers' activities overseas	3,764	1,342	5,106	46	103
Total credit risk to public	**148,003**	**49,103**	**197,106**	**66**	**2,309**
Banking corporations	2,708	7	2,715	329	299
Government	1,222	10	1,232	12,146	-
Total credit risk	**151,933**	**49,120**	**201,053**	**12,541**	**2,608**

(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) For the nine months ended September 30, 2014.

		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 [6]	Net accounting write-off [6]	Balance of provision for credit loss
-	816	12	9	-	(1)	7
102	9,753	283	95	19	1	119
3	26,817	685	599	(42)	(15)	170
-	1,948	11	7	-	1	14
104	1,639	1	1	2	-	3
31	9,104	204	144	25	15	111
1	713	13	6	7	2	13
23	1,534	30	24	-	(2)	22
5	1,532	6	2	1	-	8
443	13,026	113	62	(18)	(11)	100
2	3,237	52	20	16	8	37
38	1,382	24	18	(2)	(6)	10
752	**71,501**	**1,434**	**987**	**8**	**(8)**	**614**
-	98,600	1,045	2	11	19	632
5	24,882	192	77	30	36	142
757	**194,983**	**2,671**	**1,066**	**49**	**47**	**1,388**
33	5,288	8	8	(20)	(15)	27
790	**200,271**	**2,679**	**1,074**	**29**	**32**	**1,415**
567	3,910	-	-	(6)	-	4
-	13,378	-	-	-	-	-
1,357	**217,559**	**2,679**	**1,074**	**23**	**32**	**1,419**

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated - continued

As of September 30, 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
Agriculture	541	183	724	-	-
Industry	5,856	3,515	9,371	58	59
Construction and real estate - construction	9,179	14,257	23,436	24	3
Construction and real estate - real estate operations	1,673	1,335	3,008	-	-
Power and water	629	461	1,090	15	363
Commerce	7,161	2,202	9,363	-	39
Hotel and food services	473	164	637	-	1
Transport and storage	803	423	1,226	-	5
Communications and computer services	1,509	739	2,248	1	15
Financial services	3,195	8,127	11,322	-	807
Other business services	2,408	1,020	3,428	-	4
Public and community services	908	290	1,198	-	80
Total commercial credit risk	**34,335**	**32,716**	**67,051**	**98**	**1,376**
Private individuals - housing loans	86,426	3,524	89,950	-	-
Private individuals - other	13,261	10,200	23,461	-	3
Total	**134,022**	**46,440**	**180,462**	**98**	**1,379**
For borrowers' activities overseas	4,090	832	4,922	51	20
Total credit risk to public	**138,112**	**47,272**	**185,384**	**149**	**1,399**
Banking corporations	[7]1,854	21	1,875	386	512
Government	2,313	10	2,323	6,950	-
Total credit risk	**142,279**	**47,303**	**189,582**	**7,485**	**1,911**

(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 153 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) For the nine months ended September 30, 2013.

(7) Reclassified.

		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 [6]	Net accounting write-off [6]	Balance of provision for credit loss
-	724	18	15	-	1	7
224	9,712	321	123	47	9	125
11	23,474	888	789	(29)	(3)	174
-	3,008	77	75	(1)	(1)	19
458	1,926	3	2	1	-	2
80	9,482	233	141	(2)	35	101
1	639	9	3	3	2	9
53	1,284	32	25	(2)	-	21
45	2,309	52	43	(1)	1	9
1,137	13,266	219	211	7	50	115
10	3,442	33	18	15	14	30
187	1,465	23	11	(1)	(2)	6
2,206	**70,731**	**1,908**	**1,456**	**37**	**106**	**618**
-	89,950	1,217	2	213	352	681
6	23,470	211	86	41	49	146
2,212	**184,151**	**3,336**	**1,544**	**291**	**507**	**1,445**
89	5,082	37	37	(6)	1	27
2,301	**189,233**	**3,373**	**1,581**	**285**	**508**	**1,472**
1,429	4,202	4	4	(2)	-	8
-	9,273	-	-	-	-	-
3,730	**202,708**	**3,377**	**1,585**	**283**	**508**	**1,480**

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated - continued

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
Agriculture	563	190	753	-	-
Industry	5,832	3,773	9,605	51	67
Construction and real estate - construction	9,374	16,005	25,379	24	3
Construction and real estate - real estate operations	1,648	274	1,922	-	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	-	685
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**	**1,393**
Private individuals - housing loans	88,450	4,164	92,614	-	-
Private individuals - other	13,413	10,282	23,695	-	4
Total	**135,718**	**46,300**	**182,018**	**92**	**1,397**
For borrowers' activities overseas	4,162	950	5,112	40	30
Total credit risk to public	**139,880**	**47,250**	**187,130**	**132**	**1,427**
Banking corporations[7]	2,403	20	2,423	348	373
Government	1,045	10	1,055	6,502	-
Total credit risk	**143,328**	**47,280**	**190,608**	**6,982**	**1,800**

(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) For the year ended December 31, 2013
(7) Reclassified.

		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 [6]	Net accounting write-off [6]	Balance of provision for credit loss
-	753	6	5	(1)	1	6
240	9,963	279	95	59	12	103
5	25,411	818	762	(19)	3	181
-	1,923	68	59	(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	11,940	174	171	(6)	56	109
4	3,243	35	21	15	19	30
189	1,475	24	15	(1)	(1)	6
1,951	**69,145**	**1,742**	**1,354**	**52**	**138**	**598**
-	92,614	1,078	2	185	365	640
9	23,708	206	83	57	63	148
1,960	**185,467**	**3,026**	**1,439**	**294**	**566**	**1,386**
119	5,301	88	35	(6)	(1)	32
2,079	**190,768**	**3,114**	**1,474**	**288**	**565**	**1,418**
1,505	4,649	-	-	-	-	10
-	7,557	-	-	-	-	-
3,584	**202,974**	**3,114**	**1,474**	**288**	**565**	**1,428**

Management Discussion - Addendum D

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower:

As of September 30, 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	balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	839	1,243	1,247	332	332	-	3,329	8	-	2,271	-	2,239	1,090
UK	-	535	598	979	352	627	1,760	8	-	967	-	731	402
France	-	279	1,355	-	-	-	1,634	18	-	338	-	411	1,223
Other	-	821	1,679	-	-	-	2,500	4	-	1,816	-	1,371	1,129
Total exposure to foreign countries	**839**	**2,878**	**4,879**	**1,311**	**684**	**627**	**9,223**	**38**	**-**	**5,392**	**-**	**4,752**	**3,844**
Of which: Total exposure to LDC countries	-	1	506	-	-	-	507	1	-	129	-	166	341
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	5	36	-	-	-	41	-	-	24	-	8	33

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.

Management Discussion – Addendum D - Continued

Exposure to Foreign Countries - Consolidated (1)

Reported amounts (NIS in millions)

Country	Balance sheet exposure (2)									Off-balance sheet exposure (2)(3)			
	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	balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2013													
USA	(5)1,951	619	1,223	(5)235	(5)235	-	3,793	27	18	1,688	-	2,834	959
UK	-	472	716	767	275	492	1,680	15	9	1,160	-	401	787
France	-	129	1,499	-	-	-	1,628	27	-	643	-	445	1,183
Other	-	885	1,742	-	-	-	2,627	11	2	1,812	-	1,546	1,081
Total exposure to foreign countries	**1,951**	**2,105**	**5,180**	**1,002**	**510**	**492**	**9,728**	**80**	**29**	**5,303**	**-**	**5,226**	**4,010**
Of which: Total exposure to LDC countries	-	56	494	-	-	-	550	2	-	340	-	259	291
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	30	-	-	-	32	-	-	4	-	3	29
As of December 31, 2013													
USA	(5)703	898	1,259	(5)289	(5)289	-	2,860	27	16	1,750	-	1,913	947
France	-	159	1,504	-	-	-	1,663	16	-	510	-	486	1,177
UK	-	402	726	845	274	571	1,699	6	9	1,048	-	350	778
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

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) Reclassified.

Management Discussion – Addendum D - Continued
Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

Part B - Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower:

As of September 30, 2014, as of September 30, 2013 and 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

A. Movement in balance sheet exposure to foreign countries facing liquidity issues:

	For the three months ended September 30, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	1	6	-	7
Net change in short-term exposure	-	2	-	2
Exposure at end of reported period	**1**	**8**	**-**	**9**

	For the three months ended September 30, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the nine months ended September 30, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	5	-	5
Net change in short-term exposure	1	3	-	4
Exposure at end of reported period	**1**	**8**	**-**	**9**

	For the nine months ended September 30, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
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.

B. There is no material exposure to any foreign countries facing liquidity issues which have been re-structured.

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 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 quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal controls over financial reporting. Furthermore:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Ramat Gan, November 17, 2014

E. Fresher
President

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 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 quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal controls over financial reporting. Furthermore:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Ramat Gan, November 17, 2014

M. Aviv
Vice-president, Chief Accountant

Condensed Financial Statements

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of September 30, 2014, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the three-month and nine-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.78% of total consolidated assets as of September 30, 2014, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.60% and 7.64% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the nine-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an associate, the investment in which amounted to NIS 19 million as of September 30, 2014. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial data has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to: Note 7.C.3)A.-B. with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.

Certified Public Accountants

Brightman Almagor Zohar & Co.

November 17, 2014

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of September 30,		As of December 31,
		2014	2013	2013
		(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		26,139	21,743	26,060
Securities [1]	2	12,579	7,431	7,000
Securities loaned or sold in repurchase agreements		70	153	70
Loans to the public	3	148,003	138,112	139,880
Provision for credit losses	3	(1,304)	(1,365)	(1,315)
Loans to the public, net -		146,699	136,747	138,565
Loans to Governments		299	304	305
Investments in associates		64	62	60
Buildings and equipment		1,668	1,634	1,656
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	5,367	3,180	3,606
Other assets		2,169	1,991	2,204
Total assets		**195,141**	**173,332**	**179,613**
Liabilities and Shareholders' Equity				
Deposits from the public	4	150,648	[3]135,863	141,244
Deposits from banks		1,727	1,950	2,041
Deposits from the Government		56	77	62
Debentures and subordinated notes		21,059	16,542	16,443
Liabilities with respect to derivatives	8	5,060	3,378	3,538
Other liabilities [2]		5,302	[3]5,473	5,950
Total liabilities		**183,852**	**163,283**	**169,278**
Equity attributable to equity holders of the banking corporation		10,779	9,574	9,852
Non-controlling interest		510	475	483
Total equity		**11,289**	**10,049**	**10,335**
Total liabilities and shareholders' equity		**195,141**	**173,332**	**179,613**

(1) Of which: as of September 30, 2014 - NIS 7,916 million at fair value (September 30, 2013 - NIS 5,674 million; December 31, 2013 - NIS 5,131 million).
(2) Of which: as of September 30, 2014 provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 111 million (on September 30, 2013 - NIS 107 million, on December 31, 2013 - NIS 103 million).
(3) Reclassified. For details, see Note 1.B.

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, November 17, 2014

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013	For the year ended December 31, 2013
		(unaudited)		(unaudited)		(audited)
Interest revenues	10	(1)1,469	2,058	(1)4,099	5,175	6,442
Interest expenses	10	576	1,053	1,570	2,495	2,978
Interest revenues, net		893	1,005	2,529	2,680	3,464
Expenses with respect to credit losses	3	5	68	23	283	288
Interest revenues, net after expenses with respect to credit losses		**888**	**937**	**2,506**	**2,397**	**3,176**
Non-interest revenues						
Non-interest financing revenues	11	51	(90)	130	(9)	14
Commissions		(1)345	356	(1)1,031	1,084	1,458
Other revenues		9	8	25	21	27
Total non-interest revenues		**405**	**274**	**1,186**	**1,096**	**1,499**
Operating and other expenses						
Payroll and associated expenses		498	471	1,416	1,345	1,836
Maintenance and depreciation of buildings and equipment		181	172	529	510	683
Other expenses		113	112	321	323	438
Total operating and other expenses		**792**	**755**	**2,266**	**2,178**	**2,957**
Pre-tax profit		501	456	1,426	1,315	1,718
Provision for taxes on profit		189	143	534	452	592
After-tax profit		312	313	892	863	1,126
Share in profit (loss) of associates, after tax		3	1	6	-	(4)
Net profit:						
Before attribution to non-controlling interest		315	314	898	863	1,122
Attributable to non-controlling interest		(11)	(13)	(28)	(37)	(44)
Attributable to equity holders of the Bank		**304**	**301**	**870**	**826**	**1,078**

(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 condensed financial statements.

Condensed consolidated statement of profit and loss

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
Earnings per share[1]					
Basic earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.32	1.32	3.78	3.62	4.72
Diluted earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.31	1.31	3.76	3.60	4.69

(1) Shares of NIS 0.1 par value each.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
Net profit:					
Before attribution to non-controlling interest	315	314	898	863	1,122
Attributable to non-controlling interest	(11)	(13)	(28)	(37)	(44)
Net profit attributable to equity holders of the Bank	**304**	**301**	**870**	**826**	**1,078**
Other comprehensive income before taxes:					
Adjustments for presentation of available-for-sale securities at fair value, net	48	4	23	8	22
Adjustments from translation of financial statements	2	(1)	2	(2)	(3)
Net gain from cash flow hedges	11	(1)	20	(4)	-
Total other comprehensive income, before tax	**61**	**2**	**45**	**2**	**19**
Related tax effect	(22)	(2)	(16)	(2)	(10)
Cumulative Other Comprehensive income:					
Before attribution to non-controlling interest, after tax	39	-	29	-	9
Attributable to non-controlling interest, after tax	-	2	1	3	2
Attributable to equity holders of the Bank, after tax	**39**	**2**	**30**	**3**	**11**
Comprehensive income:					
Before attribution to non-controlling interest	354	314	927	863	1,131
Attributable to non-controlling interest	(11)	(11)	(27)	(34)	(42)
Attributable to equity holders of the Bank	**343**	**303**	**900**	**829**	**1,089**

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the three months ended September 30, 2014 (unaudited)			
Balance as of June 30, 2014	**2,122**	**111**	**(76)**	**2,157**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	20	-	20
Related tax effect	-	(2)	-	(2)
Realized share-based payment transactions[2]	5	(5)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of September 30, 2014	**2,127**	**124**	**(76)**	**2,175**
	For the three months ended September 30, 2013 (unaudited)			
Balance as of June 30, 2013	**2,074**	**127**	**(76)**	**2,125**
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	(1)	-	(1)
Related tax effect	-	6	-	6
Realized share-based payment transactions[2]	21	(21)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2013	**2,095**	**111**	**(76)**	**2,130**

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

(2) In the third quarter of 2014, 247,603 ordinary NIS 0.1 par value shares were issued (in the third quarter of 2013, 916,643 ordinary NIS 0.1 par value shares were issued) for exercise of options pursuant to the Employee Stock Option Plan.

(3) For details see Note 13 - Cumulative Other Comprehensive Income.

(4) For details on various limitations on dividend distributions, see Note 13 to the financial statements for 2013.

Cumulative other comprehensive income (loss)[(3)]	Retained earnings[(4)]	Total	Non-controlling interest	Total equity
2	**8,259**	**10,418**	**499**	**10,917**
-	304	304	11	315
-	-	20	-	20
-	-	(2)	-	(2)
-	-	-	-	-
39	-	39	-	39
41	**8,563**	**10,779**	**510**	**11,289**
1	**7,215**	**9,341**	**464**	**9,805**
-	301	301	13	314
-	(75)	(75)	-	(75)
-	-	(1)	-	(1)
-	-	6	-	6
-	-	-	-	-
2	-	2	(2)	-
3	**7,441**	**9,574**	**475**	**10,049**

Condensed Statement of Changes in Shareholders' Equity - Continued

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the nine months ended September 30, 2014 (unaudited)			
Balance as of January 1, 2014	**2,108**	**116**	**(76)**	**2,148**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	28	-	28
Related tax effect	-	(1)	-	(1)
Realized share-based payment transactions[2]	19	(19)	-	-
Other comprehensive income (loss), net after tax	-	-	-	-
Balance as of September 30, 2014	**2,127**	**124**	**(76)**	**2,175**
	For the nine months ended September 30, 2013 (unaudited)			
Balance as of January 1, 2013	**2,058**	**139**	**(76)**	**2,121**
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	1	-	1
Realized share-based payment transactions[2]	37	(37)	-	-
Other comprehensive income (loss), net after tax	-	-	-	-
Balance as of September 30, 2013	**2,095**	**111**	**(76)**	**2,130**
	For the year ended December 31, 2013 (audited)			
Balance as of January 1, 2013	**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**

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

(2) In the nine months ended September 30, 2014, the Bank issued 1,192,021 ordinary NIS 0.1 par value shares (in the nine months ended September 30, 2013 - 1,901,776) for exercise of options pursuant to the Employee Stock Option Plan. In 2013, the Bank issued 2,378,980 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan.

(3) For details see Note 13 - Cumulative Other Comprehensive Income.

(4) For details on various limitations on dividend distributions, see Note 13 to the financial statements for 2013.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
11	**7,693**	**9,852**	**483**	**10,335**
-	870	870	28	898
-	-	28	-	28
-	-	(1)	-	(1)
-	-	-	-	-
30	-	30	(1)	29
41	**8,563**	**10,779**	**510**	**11,289**

-	**6,690**	**8,811**	**441**	**9,252**
-	826	826	37	863
-	(75)	(75)	-	(75)
-	-	8	-	8
-	-	1	-	1
-	-	-	-	-
3	-	3	(3)	-
3	**7,441**	**9,574**	**475**	**10,049**

-	**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
11	**7,693**	**9,852**	**483**	**10,335**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
Cash flows provided by current operations					
Net profit for the period	315	314	898	863	1,122
Adjustments:					
Share of Company in undistributed earnings (loss) of associates	(3)	(1)	(6)	-	4
Depreciation of buildings and equipment	63	61	187	185	243
Expenses with respect to credit losses	5	68	23	283	288
Profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	(110)	17	(127)	28	32
Impairment of securities held for sale	-	-	-	-	3
Realized and unrealized gain from adjustment to fair value of securities held for trading	3	(8)	(10)	(30)	(38)
Benefit from share-based payment transactions	20	(1)	28	8	14
Deferred taxes, net	(18)	(11)	24	(72)	(80)
Severance pay - decrease (increase) in amount funded	(9)	12	(20)	-	5
Accrual differences included under investment and financing operations	92	286	(55)	340	(1)219
Effect of change in exchange rate on cash balances	(322)	65	(259)	234	332
Net change in current assets					
Deposits with banks	(334)	(61)	1,462	1,443	102
Loans to the public	(3,351)	(3,962)	(8,157)	(8,379)	(10,202)
Loans to Governments	(14)	(4)	6	13	12
Securities loaned or sold in repurchase agreements	42	(116)	-	54	137
Assets with respect to derivatives	(1,889)	231	(1,741)	334	(88)
Securities held for trade	350	559	738	1,279	780
Other assets	32	(54)	(2)	113	(87)
Net change in current liabilities					
Deposits from banks	204	(156)	(314)	256	347
Deposits from the public	2,585	290	9,404	7,512	13,163
Deposits from the Government	-	(12)	(6)	(30)	(45)
Liabilities with respect to derivatives	1,757	119	1,522	(395)	(235)
Other liabilities	143	480	(607)	410	607
Unearned revenues	(16)	4	(50)	25	37
Net cash provided by current operations	**(455)**	**(1,880)**	**2,938**	**4,474**	**6,672**

(1) Reclassified.

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

Statement of cash flows - continued

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	(2,710)	(444)	(2,787)	(524)	(646)
Acquisition of securities available for sale	(4,474)	(1,727)	(9,539)	(2,424)	(2,942)
Proceeds on sale and redemption of securities available for sale	4,154	837	6,169	3,289	4,871
Acquisition of buildings and equipment	(63)	(53)	(177)	(150)	(236)
Proceeds from sale of buildings and equipment	1	-	3	-	-
Purchase of shares in associates	2	-	4	(4)	(6)
Net cash provided by investment operations	**(3,090)**	**(1,387)**	**(6,327)**	**187**	**1,041**
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	2,876	1,498	5,809	3,007	3,007
Redemption of debentures and subordinated notes	(1,029)	(49)	(1,138)	(844)	(1) (822)
Dividends paid to shareholders	-	(75)	-	(75)	(75)
Net cash provided by financing operations	**1,847**	**1,374**	**4,671**	**2,088**	**2,110**
Increase (decrease) in cash	(1,698)	(1,893)	1,282	6,749	9,823
Cash balance at beginning of year	26,802	22,867	23,885	14,394	14,394
Effect of change in exchange rate on cash balances	322	(65)	259	(234)	(332)
Cash balance at end of period	**25,426**	**20,909**	**25,426**	**20,909**	**23,885**
Interest and taxes paid / received					
Interest received	1,411	1,980	4,044	5,163	6,596
Interest paid	529	876	1,358	2,215	3,032
Dividends received	2	-	6	-	1
Taxes on income received	-	-	77	5	5
Taxes on income paid	188	230	575	523	654
Non-cash Operations					
Acquisition of buildings and equipment	25	11	25	11	5

(1) Reclassified.

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of September 30, 2014 are prepared in accordance with Israeli GAAP for financial reporting of interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required on annual financial statements. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2013.

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

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

The Bank Board of Directors authorized publication of these condensed financial statements on November 17, 2014.

B. Re-classification

On the balance sheet as of September 30, 2013, a balance of NIS 148 million was reclassified from "Deposits from the public" to "Other liabilities with respect to securities sold short".

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

As from reporting periods starting on January 1, 2014, the Bank applies the following new accounting standards and directives:

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
2. Amounts reclassified out of other comprehensive income.

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

1. 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”).

Note 1 - Reporting Principles and Accounting Policies - continued

The directive stipulates rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria described in the directive would not be immediately recognized on 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 do 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 on profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

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 in 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.

Note 1 - Reporting Principles and Accounting Policies - continued

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.

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 in the three-month and nine-month period ended September 30, 2014 (NIS in millions):

	For the three months ended September 30, 2014	For the nine months ended September 30, 2014
	(unaudited)	
		Effect of application of the directive
Interest revenues, net	33	110
Non-interest (commission) revenues	(22)	(67)
Net profit	7	27

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 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 detailed 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, disclosure is to be provided for any items on 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 the financial statements, other than the change in presentation of the Note on cumulative other comprehensive income (loss).

Note 1 - Reporting Principles and Accounting Policies - continued

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

1) Group provision for credit loss

On April 10, 2013, the Supervisor of Banks issued draft directives on the group-based provision for credit losses (hereinafter: "the draft"). The draft includes, *inter alia*, an interim directive "Group-based provision for credit losses", which supersedes the interim directive on "Group-based provision for credit losses in 2011-2012". The interim directive clarified the range of year for which the Bank would calculate the loss rate, based on credit exposure composition by sector, and extended calculation of the general and supplementary provision pursuant to Proper Conduct of Banking Business Regulation as the minimum provision amount, through December 31, 2014. The draft also added questions and answers to explain how the group-based provision for credit losses is to be calculated.

The draft also included detailed directives with regard to including adjustments with respect to environmental factors in calculation of the provision rate. According to these directives, the Bank is required to develop and to document a consistent method to determine the provision rate for each sector and to determine the appropriateness of the total balance of provision for credit losses in each reporting period. The data and the tests carried out would be reported to Bank management and to its Board of Directors, for making a decision as to the appropriateness of the overall provision for credit losses on the financial statements.

The schedules included in the draft submitted to the Advisory Committee on Banking Business on July 18, 2013 have expired and do not apply to financial statements as of September 30, 2014.

The changes to the draft interim directive and the update to the Q&A file are not expected to materially impact the Bank's financial statements.

The expected impact due to application of the draft directives on calculation of past loss rates would be accounted for as a change in estimates and would be charged to the statement of profit and loss.

The Bank is reviewing the effect of application of the draft directives with regard to adjustments for environmental factors.

2) 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

Bank management estimates the expected effect on Group capital as of September 30, 2014 due to use of discount rates based on market yields of Government debentures in Israel (the primary effect expected due to adoption of these rules), amounts to a decrease in capital of NIS 120 million, net of tax.
This effect is the primary effect expected due to adoption of US accounting rules with regard to employee rights.
On September 1, 2014, ISA issued a draft staff position on the existence of a deep market in high-quality corporate debentures in Israel, which may affect the discount rate of the actuarial obligation.
The expected impact on Group equity as of September 30, 2014 due to use of discount rates based on yields of corporate debentures rated AA in Israel (assuming existence of a "deep market" for high-quality corporate debentures in Israel) amounts to a decrease in equity of NIS 63 million (net of tax).
In conformity with transitional provisions concerning Measurement and Capital Adequacy (Proper Conduct of Banking Business regulation 299) – re-measurement of net liabilities with respect to defined benefit plans for employees, to be included under Other Comprehensive Income, would be gradually deducted from Tier 1 capital at 40% in 2015 and at a further fixed 20% rate in each year through 2018.
Provisions of this circular will be effective as of January 1, 2015.

Note 1 - Reporting Principles and Accounting Policies - continued

Upon initial application of the proposed new directives, the Bank would be required to retrospectively revise the comparison figures for periods starting on or after January 1, 2013.

According to the aforementioned standard directives, any structured methodology may be used for amortization of actuarial gain / loss recognized on Other Comprehensive Income, instead of the minimum amortization specified - provided that the conditions listed in the directives are fulfilled.

On July 10, 2014, the Supervisor of Banks issued a draft Q&A file on application of Public Reporting Regulations concerning employee benefits which stipulates, *inter alia*, that gain / loss arising from defined benefit retirement plans and from post-retirement defined benefit plans would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.
The Bank is currently reviewing the impact of other changes listed in this circular and in the Q&A.

3) 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 stipulated by 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 comparison figures if applicable.
On September 30, 2014, 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 determined 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.

Note 1 - Reporting Principles and Accounting Policies - continued

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.

4) 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 221 "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".

In addition, a Q&A file on this subject was issued on September 30, 2014.

In conformity with these regulations, disclosure of liquidity coverage ratio would be required in the Note "Capital Adequacy and Liquidity".

The Bank is preparing to implement these regulations.

5) Supervisory operating segments

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

Note 1 - Reporting Principles and Accounting Policies - continued

The major changes to Public Reporting Regulations according to this circular and the 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, 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.

Note 2 - Securities

As of September 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [1]
(1) Government of Israel debentures held to maturity	**4,559**	**4,559**	**79**	**-**	**4,638**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [1]
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	6,327	6,285	57	(15)	6,327
Of foreign governments[2][6]	366	366	-	-	366
Of banks and financial institutions in Israel	123	123	-	-	123
Of banks and financial institutions overseas	206	205	1	-	206
Of others in Israel	3	3	-	-	3
Of others overseas	64	64	-	-	64
Total debentures available for sale	**7,089**	**7,046**	**58**	**(15)**	**7,089**
Shares [3]	107	106	1	-	107
Total securities available for sale	**7,196**	**7,152**	[4]**59**	[4]**(15)**	**7,196**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel [7]	824	821	3	-	824
Total securities held for trade	**824**	**821**	[5]**3**	**-**	**824**
Total securities	**12,579**	**12,532**	**141**	**(15)**	**12,658**

(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 to the 2013 financial statements 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 104 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 but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 518 million are 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 results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.
For details of results of investment in shares – see Note 11.A.4.

Note 2 - Securities - Continued

As of September 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [(1)]
(1) Government of Israel debentures held to maturity	**1,648**	**1,648**	**11**	**-**	**1,659**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [(1)]
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[(2)]	4,010	4,008	34	(32)	4,010
Of foreign governments[(2)(6)]	83	80	3	-	83
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	262	261	1	-	262
Of others in Israel	29	28	1	-	29
Of others overseas	120	119	1	-	120
Total debentures available for sale	**4,628**	**4,620**	**40**	**(32)**	**4,628**
Shares [(3)]	110	110	-	-	110
Total securities available for sale	**4,738**	**4,730**	[(4)] **40**	[(4)] **(32)**	**4,738**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [(1)]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel [(7)]	1,045	1,032	13	-	1,045
Total securities held for trade	**1,045**	**1,032**	[(5)] **13**	**-**	**1,045**
Total securities	**7,431**	**7,410**	**64**	**(32)**	**7,442**

(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 to the 2013 financial statements 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 109 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 554 million are 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 results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.
For details of results of investment in shares – see Note 11.A.4.

Note 2 - Securities – Consolidated

As of December 31, 2013 (audited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**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 and bonds -					
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)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value (1)
(3) Securities held for trade					
Debentures -					
Of the Government of Israel(7)	1,552	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 to the 2013 financial statements 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 but not yet realized.
(6) Primarily US government debentures.
(7) Of which, securities amounting to NIS 850 million are 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 results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.
For details of results of investment in shares – see Note 11.A.4.

Note 2 - Securities – Consolidated

Reported amounts (NIS in millions)

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

	As of September 30, 2014 (unaudited)							
	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 and bonds -								
Of the Government of Israel(2)	666	5	-	5	606	10	-	10
Total debentures available for sale	**666**	**5**	**-**	**5**	**606**	**10**	**-**	**10**

	As of September 30, 2013 (unaudited)							
	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 and bonds -								
Of the Government of Israel(2)	184	6	2	8	519	24	-	24
Total debentures available for sale	**184**	**6**	**2**	**8**	**519**	**24**	**-**	**24**

	As of December 31, 2013 (audited)							
	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 and bonds -								
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**

(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 to the 2013 financial statements for information on liens on securities held by the Bank.

C. Asset-backed securities -

As of September 30, 2014, September 30, 2013 and December 31, 2013, there was no balance of asset-backed securities.

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

Reported amounts (NIS in millions)

A. Off balance sheet debt [(1)] and credit instruments

1. Change in balance of provision for credit losses

	For the three months ended September 30, 2014					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	621	635	140	1,396	8	1,404
Expenses with respect to credit losses	(10)	4	15	9	(4)	5
Accounting write-offs	(27)	(2)	(29)	(58)	-	(58)
Recovery of debt written off in previous years	51	1	16	68	-	68
Net accounting write-offs	24	(1)	(13)	10	-	10
Balance of provision for credit losses at year end	**635**	**638**	**142**	**1,415**	**4**	**1,419**
Of which: With respect to balance sheet credit instruments	98	-	13	111	-	111

	For the three months ended September 30, 2013					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	680	674	139	1,493	10	1,503
Expenses with respect to credit losses	35	15	20	70	(2)	68
Accounting write-offs	(105)	(7)	(33)	(145)	-	(145)
Recovery of debt written off in previous years	34	-	20	54	-	54
Net accounting write-offs	(71)	(7)	(13)	(91)	-	(91)
Balance of provision for credit losses at year end	**644**	**682**	**146**	**1,472**	**8**	**1,480**
Of which: With respect to balance sheet credit instruments	97	-	10	107	-	107

(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.

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

Reported amounts (NIS in millions)

A. Off balance sheet debt [(1)] and credit instruments

1. Change in balance of provision for credit losses – continued

	For the nine months ended September 30, 2014					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	624	646	148	1,418	10	1,428
Expenses with respect to credit losses	(12)	11	30	29	(6)	23
Accounting write-offs	(97)	(20)	(90)	(207)	-	(207)
Recovery of debt written off in previous years	120	1	54	175	-	175
Net accounting write-offs	23	(19)	(36)	(32)	-	(32)
Balance of provision for credit losses at year end	**635**	**638**	**142**	**1,415**	**4**	**1,419**
Of which: With respect to balance sheet credit instruments	98	-	13	111	-	111

	For the nine months ended September 30, 2013					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	720	821	154	1,695	10	1,705
Expenses with respect to credit losses	31	213	41	285	(2)	283
Accounting write-offs	(193)	[(2)](352)	(108)	(653)	-	(653)
Recovery of debt written off in previous years	86	-	59	145	-	145
Net accounting write-offs	(107)	(352)	(49)	(508)	-	(508)
Balance of provision for credit losses at year end	**644**	**682**	**146**	**1,472**	**8**	**1,480**
Of which: With respect to balance sheet credit instruments	97	-	10	107	-	107

(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 balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.

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

Reported amounts (NIS in millions)

A. Off balance sheet debt [(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated

	September 30, 2014					
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt[(1)]						
reviewed on individual basis	30,775	2	654	31,431	3,930	35,361
reviewed on group basis	6,493	96,062	14,017	116,572	-	116,572
Total debt	**37,268**	**[(2)]96,064**	**14,671**	**148,003**	**3,930**	**151,933**
Loans for which a provision for credit losses is assessed by extent of arrears	-	95,067	-	95,067	-	95,067
Provision for credit losses with respect to debt[(1)]						
reviewed on individual basis	467	2	25	494	4	498
reviewed on group basis	70	636	104	810	-	810
Total provision for credit losses	**537**	**638**	**129**	**1,304**	**4**	**1,308**
Of which: Provision by extent of arrears	-	302	-	302	-	302

	September 30, 2013					
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt[(1)]						
reviewed on individual basis	30,181	2	560	30,743	[(3)]4,167	34,910
reviewed on group basis	6,274	88,051	13,044	107,369	-	107,369
Total debt	**36,455**	**[(2)]88,053**	**13,604**	**138,112**	**4,167**	**142,279**
Loans for which a provision for credit losses is assessed by extent of arrears	-	87,255	-	87,255	-	87,255
Provision for credit losses with respect to debt[(1)]						
reviewed on individual basis	492	2	39	533	8	541
reviewed on group basis	55	680	97	832	-	832
Total provision for credit losses	**547**	**682**	**136**	**1,365**	**8**	**1,373**
Of which: Provision by extent of arrears	-	376	-	376	-	376

	December 31, 2013					
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt[(1)]						
reviewed on individual basis	29,582	2	645	30,229	[(3)]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 the balance of general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,255 million (as of September 30, 2013 - NIS 5,132 million and as of December 31, 2013 - NIS 5,180 million).
(3) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears

	September 30, 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	7,735	30	444	8,209	5	17
Construction and real estate - real estate operations	1,642	4	7	1,653	-	3
Financial services	3,650	51	61	3,762	4	34
Commercial – other	20,049	223	307	20,579	31	62
Total commercial	**33,076**	**308**	**819**	**34,203**	**40**	**116**
Private individuals - housing loans	94,728	1,048[(7)]	2	95,778	1,048[(7)]	322[(6)]
Private individuals - other	14,071	110	77	14,258	22	62
Total public – activity in Israel	**141,875**	**1,466**	**898**	**144,239**	**1,110**	**500**
Banks in Israel	767	-	-	767	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	**142,644**	**1,466**	**898**	**145,008**	**1,110**	**500**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,463	-	5	1,468	-	-
Commercial – other	1,595	-	2	1,597	-	7
Total commercial	**3,058**	**-**	**7**	**3,065**	**-**	**7**
Private individuals	698	-	1	699	-	-
Total public – activity overseas	**3,756**	**-**	**8**	**3,764**	**-**	**7**
Overseas banks	1,941	-	-	1,941	-	-
Overseas governments	1,220	-	-	1,220	-	-
Total activity overseas	**6,917**	**-**	**8**	**6,925**	**-**	**7**
Total public	145,631	1,466	906	148,003	1,110	507
Total banks	2,708	-	-	2,708	-	-
Total governments	1,222	-	-	1,222	-	-
Total	**149,561**	**1,466**	**906**	**151,933**	**1,110**	**507**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 50 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 226 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears - continued

	September 30, 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	7,104	27	611	7,742	3	20
Construction and real estate - real estate operations	1,646	2	25	1,673	-	1
Financial services	2,978	7	210	3,195	3	2
Commercial – other	19,666	254	368	20,288	22	70
Total commercial	**31,394**	**290**	**1,214**	**32,898**	**28**	**93**
Private individuals - housing loans	86,640	[(7)]1,221	2	87,863	[(7)]1,221	[(6)]361
Private individuals - other	13,055	121	85	13,261	23	62
Total public – activity in Israel	**131,089**	**1,632**	**1,301**	**134,022**	**1,272**	**516**
Banks in Israel	779[(8)]	-	-	779	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	**131,870**	**1,632**	**1,301**	**134,803**	**1,272**	**516**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,615	-	32	1,647	-	-
Commercial – other	1,908	-	2	1,910	-	95
Total commercial	**3,523**	**-**	**34**	**3,557**	**-**	**95**
Private individuals	532	-	1	533	-	-
Total public – activity overseas	**4,055**	**-**	**35**	**4,090**	**-**	**95**
Overseas banks	1,071	-	4	1,075	-	-
Overseas governments	2,311	-	-	2,311	-	-
Total activity overseas	**7,437**	**-**	**39**	**7,476**	**-**	**-**
Total public	135,144	1,632	1,336	138,112	1,272	611
Total banks	1,850[(8)]	-	4	1,854	-	-
Total governments	2,313	-	-	2,313	-	-
Total	**139,307**	**1,632**	**1,340**	**142,279**	**1,272**	**611**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 23 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 276 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 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

1. A. Credit quality and arrears - continued

	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	598	7,965	2	6
Construction and real estate - real estate operations	1,630	9	9	1,648	-	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	88,776	[7]1,081	2	89,859	[7]1,081	[6]349
Private individuals - other	13,216	115	82	13,413	17	72
Total public – activity in Israel	**133,028**	**1,484**	**1,206**	**135,718**	**1,134**	**530**
Banks in Israel	1,034[8]	-	-	1,034	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**134,063**	**1,484**	**1,206**	**136,753**	**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	699	-	1	700	-	-
Total public – activity overseas	**4,074**	**53**	**35**	**4,162**	**-**	**53**
Overseas banks	1,369	-	-	1,369	-	-
Overseas governments	1,044	-	-	1,044	-	-
Total activity overseas	**6,487**	**53**	**35**	**6,575**	**-**	**53**
Total public	137,102	1,537	1,241	139,880	1,134	583
Total banks	2,403[8]	-	-	2,403	-	-
Total governments	1,045	-	-	1,045	-	-
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 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 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 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debt arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Debt is classified as non-performing (impaired) debt, i.e. debt not accruing interest revenues, after 90 days in arrears for debt measured on an individual basis.

Debt is to be classified as inferior 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.

Debt measured on a group basis will be subject to accounting write-off after 150 days in arrears.

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:

	As of September 30, 2014					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Problem-free debt, investment grade	34,126	95,014	14,480	1,222	2,701	147,543
Problem-free debt, other than investment grade	2,008	-	3	-	7	2,018
Problem non-impaired debt (1)	308	1,048	110	-	-	1,466
Impaired debt	826	2	78	-	-	906
Total	**37,268**	**96,064**	**14,671**	**1,222**	**2,708**	**151,933**

	As of September 30, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Problem-free debt, investment grade	32,551	86,830	13,397	2,313	(2)1,843	136,934
Problem-free debt, other than investment grade	2,366	-	-	-	7	2,373
Problem non-impaired debt (1)	290	1,221	121	-	-	1,632
Impaired debt	1,248	2	86	-	4	1,340
Total	**36,455**	**88,053**	**13,604**	**2,313**	**1,854**	**142,279**

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(2) Reclassified.

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

Reported amounts (NIS in millions)

	December 31, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Problem-free debt, investment grade	31,386	88,989	13,691	1,045	[(2)]2,395	137,506
Problem-free debt, other than investment grade	3,025	-	11	-	8	3,044
Problem 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**	**1,045**	**2,403**	**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) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision

	September 30, 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	423	28	21	444	704
Construction and real estate - real estate operations	-	-	7	7	8
Financial services	52	6	9	61	97
Commercial – other	192	69	115	307	448
Total commercial	**667**	**103**	**152**	**819**	**1,257**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	20	9	57	77	85
Total public – activity in Israel	**689**	**114**	**209**	**898**	**1,344**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**689**	**114**	**209**	**898**	**1,344**
Borrower activity overseas					
Public - commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	2	-	-	2	6
Total commercial	**7**	**-**	**-**	**7**	**12**
Private individuals	1	-	-	1	3
Total public – activity overseas	**8**	**-**	**-**	**8**	**15**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**8**	**-**	**-**	**8**	**15**
Total public	697	114	209	906	1,359
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**697**	**114**	**209**	**906**	**1,359**
Of which:					
Measured at present value of cash flows	324	96	166	490	
Debt under problem debt restructuring	454	30	89	543	

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if any.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

	September 30, 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	191	21	420	611	1,029
Construction and real estate - real estate operations	18	6	7	25	45
Financial services	196	40	14	210	251
Commercial – other	244	86	124	368	646
Total commercial	**649**	**153**	**565**	**1,214**	**1,971**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	25	11	60	85	99
Total public – activity in Israel	**676**	**166**	**625**	**1,301**	**2,072**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**676**	**166**	**625**	**1,301**	**2,072**
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	5
Total public – activity overseas	**35**	**-**	**-**	**35**	**110**
Overseas banks	4	-	-	4	5
Overseas governments	-	-	-	-	-
Total activity overseas	**39**	**-**	**-**	**39**	**115**
Total public	711	166	625	1,336	2,182
Total banks	4	-	-	4	5
Total governments	-	-	-	-	-
Total	**715**	**166**	**625**	**1,340**	**2,187**
Of which:					
Measured at present value of cash flows	597	164	232	829	
Debt under problemdebt restructuring	220	27	504	724	

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if any.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

	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	384	598	1,048
Construction and real estate - real estate operations	2	1	7	9	9
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 problem 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.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Average impaired debt balance(2)	Interest revenues recorded(3)	Of which: Recorded on cash basis	Average impaired debt balance(2)	Interest revenues recorded(3)	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	454	2	2	633	6	5
Construction and real estate - real estate operations	7	-	-	24	1	1
Financial services	96	-	-	245	-	-
Commercial – other	349	3	3	360	3	3
Total commercial	**906**	**5**	**5**	**1,262**	**10**	**9**
Private individuals - housing loans	2	-	-	2	-	-
Private individuals - other	76	1	1	83	1	1
Total public – activity in Israel	**984**	**6**	**6**	**1,347**	**11**	**10**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**984**	**6**	**6**	**1,347**	**11**	**10**
Borrower activity overseas						
Public - commercial						
Construction and real estate	5	-	-	33	-	-
Commercial – other	2	-	-	2	-	-
Total commercial	**7**	**-**	**-**	**35**	**-**	**-**
Private individuals	1	-	-	1	-	-
Total public – activity overseas	**8**	**-**	**-**	**36**	**-**	**-**
Overseas banks	-	-	-	5	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**8**	**-**	**-**	**41**	**-**	**-**
Total public	992	6	6	1,383	11	10
Total banks	-	-	-	5	-	-
Total governments	-	-	-	-	-	-
Total(4)	**992**	**6**	**6**	**1,388**	**11**	**10**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance.
(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 20 million (for the three months ended September 30, 2013 - NIS 25 million).

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

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

B. Average balance and interest revenues - Continued

	Nine months ended September 30, 2014			Nine months ended September 30, 2013		
	Average impaired debt balance[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average impaired debt balance[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	510	15	15	677	16	14
Construction and real estate - real estate operations	10	5	5	24	1	1
Financial services	122	1	1	256	-	-
Commercial – other	340	8	8	415	9	9
Total commercial	**982**	**29**	**29**	**1,372**	**26**	**24**
Private individuals - housing loans	2	-	-	3	-	-
Private individuals - other	79	3	3	84	5	4
Total public – activity in Israel	**1,063**	**32**	**32**	**1,459**	**31**	**28**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**1,063**	**32**	**32**	**1,459**	**31**	**28**
Borrower activity overseas						
Public - commercial						
Construction and real estate	18	-	-	34	-	-
Commercial – other	2	-	-	3	-	-
Total commercial	**20**	**-**	**-**	**37**	**-**	**-**
Private individuals	1	-	-	2	-	-
Total public – activity overseas	**21**	**-**	**-**	**39**	**-**	**-**
Overseas banks	-	-	-	5	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**21**	**-**	**-**	**44**	**-**	**-**
Total public	1,084	32	32	1,498	31	28
Total banks	-	-	-	5	-	-
Total governments	-	-	-	-	-	-
Total[4]	**1,084**	**32**	**32**	**1,503**	**31**	**28**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance.
(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 73 million (for the nine months ended September 30, 2013 - NIS 68 million).

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Problem debt under restructuring

	September 30, 2014				
	Recorded debt balance[(3)]				
	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
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	383	-	-	-	383
Construction and real estate - real estate operations	-	-	-	1	1
Financial services	5	-	-	2	7
Commercial – other	70	-	-	18	88
Total commercial	**458**	**-**	**-**	**21**	**479**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	24	-	2	32	58
Total public – activity in Israel	**482**	**-**	**2**	**53**	**537**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**482**	**-**	**2**	**53**	**537**
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	486	-	2	55	543
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**486**	**-**	**2**	**55**	**543**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Problem debt under restructuring - continued

	September 30, 2013				
	Recorded debt balance[(3)]				
	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
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	495	-	-	44	539
Construction and real estate - real estate operations	14	-	-	1	15
Financial services	9	-	-	-	9
Commercial – other	62	-	-	32	94
Total commercial	**580**	**-**	**-**	**77**	**657**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	27	-	1	37	65
Total public – activity in Israel	**607**	**-**	**1**	**114**	**722**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**607**	**-**	**1**	**114**	**722**
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	2	2
Commercial – other	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**2**	**2**
Private individuals	-	-	-	-	-
Total public – activity overseas	**-**	**-**	**-**	**2**	**2**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	607	-	1	116	724
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**607**	**-**	**1**	**116**	**724**

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

(2) Accruing interest revenues.

(3) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Problem debt under restructuring - continued

	December 31, 2013				
	Recorded debt balance[(3)]				
	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
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	517	-	-	39	556
Construction and real estate - real estate operations	-	-	1	-	1
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.

As of September 30, 2014, the Bank had no commitments to provide additional credit to debtors subject to troubled debt restructuring, in which credit terms have been revised.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made[(2)]					
	• For the three months ended September 30, 2014			• For the three months ended September 30, 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	2	-	-	2	1	-
Construction and real estate - real estate operations	-	-	-	1	-	-
Financial services	1	-	-	-	-	-
Commercial – other	18	3	2	32	4	3
Total commercial	**21**	**3**	**2**	**35**	**5**	**3**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	193	10	7	257	11	11
Total public – activity in Israel	**214**	**13**	**9**	**292**	**16**	**14**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**214**	**13**	**9**	**292**	**16**	**14**
Borrower activity overseas						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Commercial – other	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals	-	-	-	2	-	-
Total public – activity overseas	**-**	**-**	**-**	**2**	**-**	**-**
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**-**	**-**
Total public	214	13	9	294	16	14
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	**214**	**13**	**9**	**294**	**16**	**14**

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

(2) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

C. Problem debt under restructuring – continued

	Restructurings made[(2)]					
	For the nine months ended September 30, 2014			For the nine months ended September 30, 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	6	1	1	4	4	3
Construction and real estate - real estate operations	4	-	-	1	-	-
Financial services	4	1	1	2	1	1
Commercial – other	69	38	37	75	47	46
Total commercial	**83**	**40**	**39**	**82**	**52**	**50**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	628	28	24	655	28	26
Total public – activity in Israel	**711**	**68**	**63**	**737**	**80**	**76**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**711**	**68**	**63**	**737**	**80**	**76**
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	711	68	63	740	80	76
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	**711**	**68**	**63**	**740**	**80**	**76**

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

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default[(2)]			
	For the three months ended September 30, 2014		For the three months ended September 30, 2013	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	1	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	2	1
Commercial – other	5	1	5	-
Total commercial	**6**	**1**	**7**	**1**
Private individuals - housing loans	-	-	-	-
Private individuals - other	21	2	25	1
Total public – activity in Israel	**27**	**3**	**32**	**2**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	**27**	**3**	**32**	**2**
Borrower activity overseas				
Public - commercial				
Construction and real estate	-	-	-	-
Commercial – other	-	-	-	-
Total **commercial**	**-**	**-**	**-**	**-**
Private individuals	-	-	-	-
Total public – **activity overseas**	**-**	**-**	**-**	**-**
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**-**
Total public	27	3	32	2
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	**27**	**3**	**32**	**2**

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

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

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default[(2)]			
	For the nine months ended September 30, 2014		For the nine months ended September 30, 2013	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	2	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	2	1
Commercial – other	17	2	7	8
Total commercial	**19**	**2**	**9**	**9**
Private individuals - housing loans	-	-	-	-
Private individuals - other	90	3	84	3
Total public – activity in Israel	**109**	**5**	**93**	**12**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	**109**	**5**	**93**	**12**
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	109	5	93	12
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	**109**	**5**	**93**	**12**

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

Reported amounts (NIS in millions)

B. Debt

3. Additional information about housing loans

Balance at year end by loan-to-value ratio (LTV) [(1)], repayment type and interest type

		September 30, 2014			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	53,226	1,700	39,238	2,874
	Over 60%	42,728	564	32,641	1,275
Junior lien or no lien		110	4	91	1,430
Total		**96,064**	**2,268**	**71,970**	**5,579**

					September 30, 2013
Senior lien: LTV ratio	Up to 60%	46,284	1,279	35,258	2,652
	Over 60%	41,684	518	32,780	1,577
Junior lien or no lien		85	2	66	729
Total		**88,053**	**1,799**	**68,104**	**4,958**

					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 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	September 30,		December 31,
	2014	2013	2013
	(unaudited)	(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	18,682	13,999	15,411
Interest-bearing	5,456	4,128	4,804
Total on-call	24,138	18,127	20,215
Term deposits	122,418	113,238	117,140
Total deposits in Israel[(1)]	**146,556**	**131,365**	**137,355**
Outside of Israel			
On-call			
Non interest-bearing	816	623	654
Interest-bearing	8	8	-
Total on-call	824	631	654
Term deposits	3,268	3,867	3,235
Total deposits overseas	**4,092**	**4,498**	**3,889**
Total deposits from the public	**150,648**	**135,863**	**141,244**
(1) Includes:			
Deposits from individuals	**69,575**	**65,365**	**65,819**
Deposits from institutional investors	**44,658**	**38,904**	**41,918**
Deposits from corporations and others	**32,323**	**27,096**	**29,618**

B. Deposits from the public by size on consolidated basis

	September 30,		December 31,
	2014	2013	2013 [(2)]
	(unaudited)	(unaudited)	(audited)
Maximum deposit - NIS in millions			
Up to 1	49,719	48,555	48,678
1 to 10	29,745	27,234	25,226
10 to 100	14,074	11,456	14,810
100 to 500	12,934	10,639	13,507
Above 500	44,176	37,979	39,023
Total	**150,648**	**135,863**	**141,244**

(2) Reclassified.

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

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

Reported amounts (NIS in millions)

A. Capital adequacy information

	As of September 30, 2014	As of January 1, 2014	As of December 31, 2013	As of September 30, 2013
	Basel III(1)		Basel II(2)	
	(unaudited)	(audited)	(audited)	(unaudited)
1. Consolidated data				
A. Capital for purpose of calculating minimum capital ratio				
Tier 1 capital	11,154	10,206	-	-
Tier 1 capital	11,154	10,206	10,217	9,942
Tier 2 capital	4,871	4,850	4,569	4,634
Total capital	**16,025**	**15,056**	**14,786**	**14,576**
B. Weighted risk asset balances				
Credit risk	115,672	108,917	105,411	104,292
Market risk	897	842	842	1,065
Operating risk	7,243	7,154	7,154	7,121
Total weighted risk asset balances	**123,812**	**116,913**	**113,407**	**112,478**

	As of September 30, 2014	As of January 1, 2014	As of December 31, 2013	As of September 30, 2013
	Basel III(1)		Basel II(2)	
		In %		
C. Ratio of capital to risk elements				
Bank data:				
Ratio of common equity Tier 1 to risk elements	9.01	8.73	(3) -	(3) -
Ratio of Tier I capital to risk elements	9.01	8.73	9.01	8.84
Ratio of total capital to risk elements	12.94	12.88	13.04	12.96
Minimum Tier I capital ratio required by Supervisor of Banks	(4) 9.00	(4) 9.00	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	(4) 12.50	(4) 12.50	9.00	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) As from January 1, 2015.

Note 5 - Capital adequacy pursuant to 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)

A. Capital adequacy information (continued)

	As of September 30,	As of January 1,	As of December 31,	As of September 30,
	2014	2014	2013	2013
	Basel III[1]		Basel II[2]	
				In %
2. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and subsidiaries there of				
Ratio of common equity Tier 1 to risk elements	9.64	9.90	[3] -	[3] -
Ratio of Tier I capital to risk elements	9.64	9.90	10.00	9.72
Ratio of total capital to risk elements	13.58	14.19	15.03	14.61
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	[4]12.50	[4] 12.50	9.00	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) As from January 1, 2015.

Note 5 - Capital adequacy pursuant to 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 September 30, 2014	As of January 1, 2014	As of December 31, 2013	As of September 30, 2013
		Basel III(1)		Basel II(2)
	(unaudited)	(audited)	(audited)	(unaudited)
3. Capital components for calculation of capital ratio (on consolidated basis)				
A. Tier 1 capital				
Shareholders' equity	11,289	10,335	10,335	10,049
Differences between shareholders' equity and Tier 1 capital	(41)	(35)	(14)	(3)
Total Tier 1 equity before regulatory adjustments and deductions	**11,248**	**10,300**	**10,321**	**10,046**
Regulatory adjustments and deductions:				
Goodwill	(87)	(87)	(87)	(87)
Regulatory adjustments and other deductions - Tier 1 capital	(7)	(7)	(17)	(17)
Total regulatory adjustments and other deductions - Tier 1 capital	(94)	(94)	(104)	(104)
Total Tier 1 capital after regulatory adjustments and deductions	**11,154**	**10,206**	**10,217**	**9,942**
B. Tier 2 capital				
Tier 2 capital: Instruments, before deductions	3,573	3,573	4,467	4,538
Tier 2 capital: Provisions, before deductions	1,298	1,277	110	110
Total Tier 2 capital, before deductions	4,871	4,850	4,577	4,648
Deductions:				
Total deductions - Tier 2 capital	-	-	(8)	(14)
Total Tier II capital	**4,871**	**4,850**	**4,569**	**4,634**

(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.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

B. Effect of transitional provisions on Tier 1 capital (for details see section I. below):

	As of September 30, 2014	As of January 1, 2014 Basel III
	(unaudited)	(audited)
	In %	
Ratio of capital to risk elements		
Ratio of Tier I equity to risk elements before application of transitional provisions	8.86	8.60
Effect of transitional provisions	0.15	0.13
Ratio of Tier I equity to risk elements after application of transitional provisions	9.01	8.73

C. 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.

D. On October 25, 2010, the Bank 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 Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

E. 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.

F. On July 23, 2012, the Bank 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, 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.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

G. 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.

H. 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.

I. 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.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

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 the group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk.

  On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**

  - Deferred taxes due to temporary differences would be accounted for as follows:

    Up to 10% of Tier I equity - weighted at 250% risk weighting.

    Over 10% of Tier I equity - would be deducted from capital.
  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
  - The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.
  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

- Capital allocation with respect to **CVA** loss (**Credit Value Adjustments**) - loss due to revaluation at market value with respect to counter-party credit risk.

  In addition to the 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.

J. 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 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 distributions, 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.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

K. 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.

L. On September 28, 2014, the Supervisor of Banks issued a circular amending Proper Conduct of Banking Business Regulation 329 and a Q&A file on the subject.

The circular contains two amendments to the regulation:

- Increasing the capital target – target ratio for Tier I capital to risk elements to include an additional 1% of total housing loan balance. The capital target is to be increased by fixed quarterly rates from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting for leveraged loans bearing variable interest – the risk weighting for leveraged loans bearing variable interest would be reduced from 100% to 75%.

Following implementation of this regulation, the target ratio of common equity Tier 1 to risk elements is expected to increase by 0.1% in each of the eight quarters as from the implementation start date of this regulation and in total – by 0.8% through complete implementation of the regulation.

Note 6 – Consolidated statement of assets and liabilities by linkage basis

As of September 30, 2014 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	22,886	145	2,344	437	327	-	26,139
Securities	8,243	870	2,050	1,299	10	107	12,579
Securities borrowed or bought in conjunction with repurchase agreements	70	-	-	-	-	-	70
Loans to the public, net	81,324	53,410	8,339	2,122	1,504	-	146,699
Loans to Governments	-	-	140	159	-	-	299
Investments in investees	36	-	-	-	-	28	64
Buildings and equipment	-	-	-	-	-	1,668	1,668
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,597	553	2,088	92	37	-	5,367
Other assets	1,792	287	29	1	18	42	2,169
Total assets	**116,948**	**55,265**	**14,990**	**4,110**	**1,896**	**1,932**	**195,141**
Liabilities							
Deposits from the public	95,110	20,528	27,541	4,801	2,668	-	150,648
Deposits from banks	453	363	691	141	79	-	1,727
Deposits from the Government	9	17	30	-	-	-	56
Debentures and subordinated notes	2,413	18,646	-	-	-	-	21,059
Liabilities with respect to derivatives	2,411	246	2,121	277	5	-	5,060
Other liabilities	4,292	671	29	12	37	261	5,302
Total liabilities	**104,688**	**40,471**	**30,412**	**5,231**	**2,789**	**261**	**183,852**
Difference	**12,260**	**14,794**	**(15,422)**	**(1,121)**	**(893)**	**1,671**	**11,289**
Impact of hedging derivatives:							
Derivatives (other than options)	3,778	(3,778)					
Non-hedging financial derivatives:							
Derivatives (other than options)	(11,335)	(3,582)	13,876	315	726	-	-
Net in-the-money options (in terms of underlying asset)	(1,861)	-	1,016	867	(23)	1	-
Net out-of-the-money options (in terms of underlying asset)	(370)	-	418	(72)	23	1	-
Total	**2,472**	**7,434**	**(112)**	**(11)**	**(167)**	**1,673**	**11,289**
Net in-the-money options (capitalized par value)	1,246	-	(589)	(627)	(30)	-	-
Net out-of-the-money options (capitalized par value)	349	-	(291)	(99)	41	-	-

(1) Includes linked to foreign currency.

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

Note 6 – Consolidated statement of assets and liabilities by linkage basis – Continued

As of September 30, 2013 (unaudited) - Continued

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	18,272	127	2,874	216	254	-	21,743
Securities	4,215	240	2,051	785	30	110	7,431
Securities borrowed or bought in conjunction with repurchase agreements	153	-	-	-	-	-	153
Loans to the public, net	71,817	52,609	8,451	2,424	1,446	-	136,747
Loans to Governments	-	-	115	189	-	-	304
Investments in associates	35	-	-	-	-	27	62
Buildings and equipment	-	-	-	-	-	1,634	1,634
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,356	448	211	123	42	-	3,180
Other assets	1,469	439	27	1	11	44	1,991
Total assets	**98,317**	**53,863**	**13,729**	**3,738**	**1,783**	**1,902**	**173,332**
Liabilities							
Deposits from the public	87,262	21,471	20,268	4,406	2,456	-	135,863
Deposits from banks	271	461	1,084	100	34	-	1,950
Deposits from the Government	14	32	31	-	-	-	77
Debentures and subordinated notes	2,180	14,362	-	-	-	-	16,542
Liabilities with respect to derivatives	2,267	304	455	320	32	-	3,378
Other liabilities	4,376	710	48	1	21	317	5,473
Total liabilities	**96,370**	**37,340**	**21,886**	**4,827**	**2,543**	**317**	**163,283**
Difference	**1,947**	**16,523**	**(8,157)**	**(1,089)**	**(760)**	**1,585**	**10,049**
Impact of hedging derivatives:							
Derivatives (other than options)	535	(535)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,119)	(8,167)	8,029	533	724	-	-
Net in-the-money options (in terms of underlying asset)	(1,020)	-	670	345	6	(1)	-
Net out-of-the-money options (in terms of underlying asset)	193	-	(375)	171	11	-	-
Total	**536**	**7,821**	**167**	**(40)**	**(19)**	**1,584**	**10,049**
Net in-the-money options (capitalized par value)	(622)	-	856	(225)	(5)	(4)	-
Net out-of-the-money options (capitalized par value)	540	-	(664)	68	16	40	-

(1) Includes linked to foreign currency.

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

Note 6 – Consolidated statement of assets and liabilities by linkage basis – Continued

As of December 31, 2013 (audited) - Continued

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 borrowed or bought in conjunction with 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)	(1,437)	(8,042)	8,238	524	717	-	-
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	**1,512**	**7,243**	**58**	**(26)**	**(35)**	**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 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

			As of September 30,		As of December 31,	
	2014		2013		2013	
			Unaudited			Audited
	Balance (1)	Provision (2)	Balance (1)	Provision (2)	Balance (1)	Provision (2)
A. Off-balance sheet financial instruments						
Contractual balances or their denominated amounts at the end of the year						
Transactions in which the balance represents a credit risk:						
- Documentary credit	269	2	394	3	296	2
- Loan guarantees	2,116	30	2,457	27	2,413	27
- Guarantees to home buyers	10,017	7	9,383	8	9,935	8
- Other guarantees and liabilities(3)	3,877	15	3,472	16	3,519	13
- Unutilized revolving credit card facilities	7,325	6	7,132	5	7,135	5
- Unutilized debitory account and other credit facilities in accounts available on demand	17,892	30	18,720	24	17,460	28
- Irrevocable commitments for loans approved but not yet granted	9,757	16	8,719	18	9,009	15
- Commitments to issue guarantees	7,623	5	5,169	6	6,265	5

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

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

(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 138 million. (as of September 30, 2013 and December 31, 2013 - NIS 105 million and NIS 133 million, respectively). For additional details, see Note 19.D.2 and Note 15.B. to Financial Statements as of December 31, 2013.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2014	2013	2013
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	594	557	603
Computerization and software service contracts	196	170	174
Acquisition and renovation of buildings	20	11	10
Receipt of deposits on future dates [(1)]	400	400	400

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

Note 7 - Contingent Liabilities and Special Commitments - continued

C. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2013. Below is a description of material changes relative to the description provided in the 2013 annual report.

2) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. 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 material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2013 financial statements:

A. 1) In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim). The plaintiffs claim that banks are in breach of restrictive trade practices statutes, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

2) In May 2009, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank Leumi, Bank Discount and First International Bank (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 Leumi, Bank Discount and First International Bank, with regard to commission-related information sharing" (see section 4 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.

Note 7 - Contingent Liabilities and Special Commitments - continued

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation so as to place the issue under the material jurisdiction of the District Court.

In November 2009, at the Bank's request, the Court handed down its decision, whereby legal proceedings with regard to the two aforementioned lawsuits would 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.

Currently, the parties to the aforementioned claims (as well as two other claims filed on the same matter against the other banks) are in advanced negotiations of a settlement agreement. Such agreement has yet to be signed and filed with the Court. (For more information about these lawsuits, see also section 4 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 Hapoalim, 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. The response of the defendant banks to the claim has yet to be filed.

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.

Note 7 - Contingent Liabilities and Special Commitments - continued

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.

At the hearing on October 27, 2014, the Court proposed to the parties a ruling by way of settlement in conformity with section 79a of the Court of Law Act. The Banks rejected the settlement proposal and the Court to issue a ruling in this case.

C. In July 2011, a claim was filed with the Central District Court in the amount of NIS 81.8 million for alleged forward transactions made in the plaintiffs' account, which allegedly caused the plaintiffs to incur a loss. The plaintiffs claim that the Bank acted unilaterally in the account and without prior notification about collateral calculation, causing the plaintiffs to incur losses by taking risky positions. The plaintiffs claim that the Bank, by deed or omission, caused the account and the investment portfolio to collapse.

In January 2012, the Bank filed a statement of defense. The Bank claims that the plaintiff is skilled and familiar with the capital market, and the Bank acted professionally, thoroughly and skillfully at all times. In November 2012, the plaintiffs filed their evidence with the Court and the Bank did so in April 2013.

The parties conducted an arbitration proceeding and reached a settlement agreement. On February 19, 2014, the Court approved the settlement agreement, which was adopted as a verdict.

D. In September 2011, a claim and motion for class action status were filed with the Central District Court against the Bank and against other banks with regard to alleged unlawful charging of compound interest, in contravention of the law and of agreements, on housing loans, including directed loans, eligibility loans and additional loans, with the exception of

standing loans. The total claim amount against the banks was NIS 927 million. The amount attributed to the Bank in this claim is NIS 364 million.

Note 7 - Contingent Liabilities and Special Commitments - continued

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.

E. 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 withdrawal commissions paid to ABS increased, as did the number of direct channel transaction commissions 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. On January 29, 2014, the Court approved the agreed motion for withdrawal, agreed to by the parties, and the claim was rejected.

F. In October 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, against the 5 major 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.

G. 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.

Note 7 - Contingent Liabilities and Special Commitments - continued

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.

H. 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 currently unable to estimate the amount claimed.
The parties agreed to add this motion for reconciliation together with other motions for approval of class action status for other claims which make similar claims against the Banks and other banks.
The Bank is due to file its response to the motion by December 31, 2014.

I. 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, in person - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.
In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.
A revised claim filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.
The plaintiffs have filed a motion to combine this discussion with a claim filed against the credit card companies with regard to foreign currency conversion; the Bank has yet to respond to this motion. The deadline for filing the Bank's response to this motion is November 27, 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

J. In October 2013, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 622 million, alleging services unlawfully made contingent on other services and excessive interest charged with respect to loans guaranteed by the State. The plaintiffs claim that, as a pre-condition for providing loans guaranteed by the State, in which the State guarantees repayment to the Bank up to 70% of the loan amount, the Bank makes this contingent on the client depositing at least 25% of the loan amount. The plaintiffs claim that, in so doing, the Bank is in fact only lending 75% of the loan amount to the borrower, while charging interest on the full loan amount.

The Bank's response to the motion was filed in May 2014 and a hearing in this case is scheduled for February 4, 2015.

K. In August 2014, a counter-claim was filed with the Supreme Court in New York by a plaintiff who is subject to debt collection proceedings concerning his guarantee to secure credit obtained by a company controlled there by. The plaintiff claims they have sustained damage in excess of USD 57 million due to a breach of verbal commitment made by the Bank to the plaintiff not to enforce his personal guarantee. The plaintiff claims that deeds and omissions by the Bank have resulted in failure to meet his various obligations and in the ruin of his business.

A statement of defense has yet to be filed.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3) below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 104 million.

3) Motions for recognition as class actions are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage, so that no provision was made for them.

A. 1) In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Igud LeIsrael and Bank Yahav for Government Employees, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the one in section 2.j above).

A motion has been filed to combine heating of this claim with the first aforementioned claim and the Court has agreed to this motion and has combined both claims.

The deadline for filing the Bank's response to this motion is November 27, 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

2) In August 2014, a claim and motion for class action status were filed with the Tel Aviv District Court in the amount of NIS 1.5 billion against the 5 major banks, including the Bank, as well as against Bank Otzar HaChayal and Mercantile Discount Bank. The plaintiff is one of the plaintiffs who filed the claim and motion listed in section 1 above. The claim concerns a matter similar to the one discussed in sections 2.I and 3.A.1 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 breached, *inter alia*, by the Bank allowing charges to clients which the Bank could and should have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.

The plaintiff claimed to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

The Bank filed its response to the motion in October 2014. A pre-trial hearing is scheduled for December 2014.

4) 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's inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of its content in any legal proceeding.

On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. The Restrictive Trade Practices Authority filed its response to the appeal on February 22, 2011. On June 18, 2012, the Court ordered parts of the Supervisor's response to the appeal to be erased.

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 2A in this Note.

Note 7 - Contingent Liabilities and Special Commitments - continued

5) In recent years, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities.

In August 2013, Mizrahi Bank Switzerland was informed by US authorities that an investigation of its business has been launched. Mizrahi Bank Switzerland expressed its willingness to assist and cooperate with US authorities, in conformity with statutory provisions and the treaty signed by the USA and Switzerland - and even provided statistical data to US authorities as required. Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities and the Bank reports these events from time to time to the Supervisor of Banks.

On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding it to produce documents related to a Bank employee and to a Bank employee who retired five years ago, as well as to banking services provided at the Los Angeles branch, provided that such documents are available at the Bank branch in Los Angeles. The Los Angeles branch is acting to provide the required documents.

On April 30, 2014, an indictment was filed with the Court in Los Angeles against the Bank employee in Los Angeles who has retired; the indictment alleges , *inter alia*, that the employee aided US clients of the Bank to avoid tax payment. The Bank is not named on the indictment and is referred to as Bank A of Tel Aviv, with no violation attributed to the Bank.

On July 25, 2014, the Bank was required by US authorities to provide additional statistical information.

On September 19, 2014, the Bank was required by US authorities to provide additional statistical information.

On October 28, 2014, the trial against the Bank employee in Los Angeles, who has retired as noted above, opened at the Los Angeles Court of Law. On October 31 he was found not guilty of all charges.

The Bank is cooperating with US authorities in conformity with statutory provisions and continued to provide the required statistical information. To this end, the Bank employs the services of external experts and consultants. The Bank reports these events from time to time to the Supervisor of Banks.

The Bank and Mizrahi Bank Switzerland are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group.

At this stage, based on the opinion of the Bank's legal counsel, it is not possible to assess the likelihood of the Bank realizing a loss due to these events, nor the related exposure amounts or the extent of such exposure.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of September 30, 2014 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodity contracts and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives (1)						
Forward contracts	3,934	-	-	-	-	3,934
Swaps	-	2,116	-	-	-	2,116
Total	**3,934**	**2,116**	**-**	**-**	**-**	**6,050**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,116	-	-	-	2,116
B. ALM derivatives (1)(2)						
Forward contracts	5,628	800	81,997	-	19	88,444
Option contracts traded on stock exchange:						
Options written	-	-	5,626	1,775	-	7,401
Options purchased	-	-	5,051	1,775	-	6,826
Other option contracts:						
Options written	-	-	18,028	-	-	18,028
Options purchased	-	-	16,012	-	-	16,012
Swaps	2,285	30,101	9,587	-	-	41,973
Total	**7,913**	**30,901**	**136,301**	**3,550**	**19**	**178,684**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,684	15,934	-	-	-	17,618
C. Other derivatives (1)						
Forward contracts	-	-	899	-	-	899
Option contracts traded on stock exchange:						
Options written	-	-	9,646	13,308	-	22,954
Options purchased	-	-	9,646	13,308	-	22,954
Other option contracts:						-
Options written	-	258	-	34	-	292
Options purchased	-	211	-	50	-	261
Swaps	-	245	-	5,672	-	5,917
Total	**-**	**714**	**20,191**	**32,372**	**-**	**53,277**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

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

Reported amounts (NIS in millions)

a) **Activity on consolidated basis - continued**

	As of September 30, 2014 (unaudited)					
	Interest contracts		Contractual	contracts with respect to	Commodity contracts	
	NIS - CPI	Other	Foreign currency	shares	and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Foreign currency spot swap contracts	-	-	8,428	-	-	8,428
Total	**-**	**-**	**8,428**	**-**	**-**	**8,428**
Total stated amounts of derivatives	**11,847**	**33,731**	**164,920**	**35,922**	**19**	**246,439**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	77	1	-	-	-	78
Negative fair value, gross	-	174	-	-	-	174
B. ALM derivatives (1)(2)						
Positive fair value, gross	256	1,369	2,982	297	1	4,905
Negative fair value, gross	227	1,635	2,610	3	1	4,476
C. Other derivatives (1)						
Positive fair value, gross	-	7	181	208	-	396
Negative fair value, gross	-	49	169	197	-	415
Total:						
Carrying amount of assets with respect to derivatives (3)	**333**	**1,377**	**3,163**	**505**	**1**	**5,379**
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	84	121	1,310	505	1	2,021
Carrying amount of liabilities with respect to derivatives (3)	**227**	**1,858**	**2,779**	**200**	**1**	**5,065**
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	6	163	951	200	-	1,320

(1) Except for credit derivatives.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Of which: positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 12 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 5 million.

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

Reported amounts (NIS in millions)

a) **Activity on consolidated basis - continued**

	As of September 30, 2013 (unaudited)					
	Interest contracts				Commodity	
	NIS - CPI	Other	Currency contracts	Contracts for shares	contracts and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives (1)						
Forward contracts	735	-	-	-	-	735
Swaps	-	2,192	-	-	-	2,192
Total	**735**	**2,192**	**-**	**-**	**-**	**2,927**
Of which: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,192	-	-	-	2,192
B. ALM derivatives (1)(2)						
Forward contracts	9,798	400	51,364	-	30	61,592
Option contracts traded on stock exchange:						
Options written	-	-	3,808	617	-	4,425
Options purchased	-	-	3,934	617	-	4,551
Other option contracts:						
Options written	-	-	10,005	4	-	10,009
Options purchased	-	-	9,643	39	-	9,682
Swaps	2,043	39,126	11,428	-	-	52,597
Total	**11,841**	**39,526**	**90,182**	**1,277**	**30**	**142,856**
Of which: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,493	23,779	-	-	-	25,272
C. Other derivatives (1)						
Forward contracts	-	-	756	-	-	756
Option contracts traded on stock exchange:						
Options written	-	-	5,518	10,595	81	16,194
Options purchased	-	-	5,518	10,595	81	16,194
Other option contracts:						-
Options written	-	75	149	969	-	1,193
Options purchased	-	75	163	959	-	1,197
Swaps	-	-	-	3,636	-	3,636
Total	**-**	**150**	**12,104**	**26,754**	**162**	**39,170**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of September 30, 2013 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Contractual Foreign currency	contracts with respect to shares	Commodity contracts and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	1,741	-	-	1,741
Total	**-**	**-**	**1,741**	**-**	**17**	**1,758**
Total stated amounts of derivatives	**12,576**	**41,868**	**104,027**	**28,031**	**209**	**186,711**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	-	4	-	-	-	4
Negative fair value, gross	3	218	-	-	-	221
B. ALM derivatives (1)(2)						
Positive fair value, gross	177	1,025	1,521	71	1	2,795
Negative fair value, gross	202	1,291	1,300	5	1	2,799
C. Other derivatives (1)						
Positive fair value, gross	-	5	148	228	-	381
Negative fair value, gross	-	-	146	214	-	360
Total:						
Carrying amount of assets with respect to derivatives	**177**	**1,034**	**1,669**	**299**	**1**	**3,180**
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	51	88	949	299	1	1,388
Carrying amount of liabilities with respect to derivatives (3)	**205**	**1,509**	**1,446**	**219**	**1**	**3,380**
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	11	118	956	219	-	1,304

(1) Except for credit derivatives.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Of which: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 9 million and negative gross fair value of liabilities with respect to embedded derivatives amounting to NIS 2 million.

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

Reported amounts (NIS in millions)

a) **Activity on consolidated basis – cont.**

	As of December 31, 2013 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodity contracts and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives (1)						
Forward contracts	1,803	-	-	-	-	1,803
Swaps	-	1,900	-	-	-	1,900
Total	**1,803**	**1,900**	**-**	**-**	**-**	**3,703**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,900	-	-	-	1,900
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	-	230	-	3,291	-	3,521
Total	**-**	**370**	**15,291**	**34,975**	**-**	**50,636**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

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

Reported amounts (NIS in millions)

a) **Activity on consolidated basis - continued**

	As of December 31, 2013 (audited)					
	Interest contracts			contracts		
	NIS - CPI	Other	Contractual Foreign currency	with respect to shares	Commodity contracts and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	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	-	140	-	-	-	140
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	-	41	143	248	-	432
Total:						
Carrying amount of assets with respect to derivatives (3)	**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
Carrying amount of liabilities with respect to derivatives (3)	**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 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

B. Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	As of September 30, 2014 (unaudited)					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [(1)]	**698**	**2,934**	**31**	**26**	**1,690**	**5,379**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(2,705)	-	-	(104)	(2,809)
Mitigation of credit risk with respect to cash collateral received	-	(102)	-	-	(104)	(206)
Net amount of assets with respect to derivatives	**698**	**127**	**31**	**26**	**1,482**	**2,364**
Off-balance sheet credit risk on financial derivatives[(2)]	58	641	-	-	731	1,430
Mitigation of off-balance sheet credit risk	-	(698)	-	-	(40)	(738)
Net off-balance sheet credit risk with respect to derivatives	**58**	**(57)**	**-**	**-**	**691**	**692**
Total credit risk on financial derivatives	**756**	**70**	**31**	**26**	**2,173**	**3,056**
Carrying amount of liabilities with respect to derivatives[(3)]	**325**	**3,847**	**-**	**-**	**893**	**5,065**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(2,705)	-	-	(104)	(2,809)
Pledged cash collateral	-	(960)	-	-	(2)	(962)
Net amount of liabilities with respect to derivatives	**325**	**182**	**-**	**-**	**787**	**1,294**

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

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

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

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

Reported amounts (NIS in millions)

B. **Credit risk on financial derivatives according to counter-party to the contract - Consolidated - continued**

	As of September 30, 2013 (unaudited)					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [1]	**402**	**1,969**	**14**	**-**	**795**	**3,180**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,647)	-	-	-	(1,647)
Mitigation of credit risk with respect to cash collateral received	-	(275)	-	-	-	(275)
Net amount of assets with respect to derivatives	**402**	**47**	**14**	**-**	**795**	**1,258**
Off-balance sheet credit risk on financial derivatives[2]	-	1,461	498	-	2,189	4,148
Mitigation of off-balance sheet credit risk	-	(490)	-	-	-	(490)
Net off-balance sheet credit risk with respect to derivatives	**-**	**971**	**498**	**-**	**2,189**	**3,658**
Total credit risk on financial derivatives	**402**	**1,018**	**512**	**-**	**2,984**	**4,916**
Carrying amount of liabilities with respect to derivatives[3]	**392**	**2,209**	**-**	**-**	**779**	**3,380**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,647)	-	-	-	(1,647)
Pledged cash collateral	-	(478)	-	-	-	(478)
Net amount of liabilities with respect to derivatives	**392**	**84**	**-**	**-**	**779**	**1,255**

(1) Of which: Positive gross fair value of embedded derivatives amounting to NIS 9 million.

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

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

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

Reported amounts (NIS in millions)

B. Credit risk on financial derivatives according to counter-party to the contract - Consolidated - continued

	As of December 31, 2013 (audited)					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [(1)]	**681**	**2,003**	**29**	**-**	**904**	**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**	**(72)**	**887**	**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**	**(72)**	**2,925**	**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 the total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 14 million.

In the nine-month period ended September 30, 2014, the Bank recognized credit losses with respect to derivatives, amounting to NIS 5 million (in the nine-month period ended September 30, 2013 and in all of 2013, the Bank recognized credit losses amounting to NIS 27 million and NIS 28 million, respectively).

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

Reported amounts (NIS in millions)

C) Maturity dates – stated amounts: balances at end of period - Consolidated

	As of September 30, 2014 (unaudited)				
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	2,221	3,682	4,629	1,315	11,847
Other	1,121	5,192	15,203	12,215	33,731
Currency contracts	95,830	57,807	5,866	5,417	164,920
Contracts for shares	31,521	4,318	2	81	35,922
Commodities and other contracts	17	2	-	-	19
Total	**130,710**	**71,001**	**25,700**	**19,028**	**246,439**

	As of September 30, 2013 (unaudited)				
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	2,934	5,149	2,451	2,042	12,576
Other	5,083	9,019	13,907	13,859	41,868
Currency contracts	62,163	30,151	4,737	6,976	104,027
Contracts for shares	25,475	2,494	62	-	28,031
Commodities and other contracts	170	21	18	-	209
Total	**95,825**	**46,834**	**21,175**	**22,877**	**186,711**

	As of December 31, 2013 (audited)				
	Up to 3 months	3 to 12 months	1 to 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 9 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

A. Fair value balances

	As of September 30, 2014 (unaudited)				
	Carrying				Fair value
	amount	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	26,139	5,625	16,902	3,603	26,130
Securities [(3)]	12,579	9,549	2,800	309	12,658
Securities loaned or sold in repurchase agreements	70	70	-	-	70
Loans to the public, net	146,699	-	9,985	138,524	148,509
Loans to Governments	299	-	-	298	298
Investments in associates	36	-	-	36	36
Assets with respect to derivatives	5,367	728	3,623	[(2)]1,016	5,367
Other financial assets	2,028	798	-	1,230	2,028
Total financial assets	[(4)]**193,217**	**16,770**	**33,310**	**145,016**	**195,096**
Financial liabilities					
Deposits from the public	150,648	-	30,958	122,509	153,467
Deposits from banks	1,727	-	40	1,715	1,755
Deposits from the Government	56	-	-	66	66
Debentures and subordinated notes	21,059	20,418	-	1,875	22,293
Liabilities with respect to derivatives	5,060	325	3,764	[(2)]971	5,060
Other financial liabilities	4,032	-	3,299	732	4,031
Total financial liabilities	[(4)]**182,582**	**20,743**	**38,061**	**127,868**	**186,672**

(1) Level 1 - Fair value measurement using quoted prices on an active market; Level 2 - Fair value measurement using other significant observed data; Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For details of the carrying amount and fair value of securities, see Note 2.
(4) Includes assets and liabilities amounting to NIS 48,123 million and NIS 36,221 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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances

					September 30, 2013 (unaudited)
	Carrying				Fair value
	amount	Level 1 [(1)]	Level 2 [(1)]	Level 3 [(1)]	Total
Financial assets					
Cash and deposits with banks	21,743	3,163	14,769	3,816	21,748
Securities [(3)]	7,431	4,526	2,716	200	7,442
Securities loaned or sold in repurchase agreements	153	153	-	-	153
Loans to the public, net	136,747	-	9,883	128,514	138,397
Loans to Governments	304	-	-	304	304
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,180	410	1,936	[(2)]834	3,180
Other financial assets	1,887	-	-	1,887	1,887
Total financial assets	**[(4)]171,480**	**8,252**	**29,304**	**135,590**	**173,146**
Financial liabilities					
Deposits from the public	[(5)]135,863	-	[(5)]30,092	108,259	[(5)]138,351
Deposits from banks	1,950	-	26	1,963	1,989
Deposits from the Government	77	-	-	88	88
Debentures and subordinated notes	16,542	15,695	-	2,105	17,800
Liabilities with respect to derivatives	3,378	400	2,055	[(2)]923	3,378
Other financial liabilities	[(5)]4,144	-	[(5)]3,236	909	[(5)]4,145
Total financial liabilities	**[(4)]161,954**	**16,095**	**35,409**	**114,247**	**165,751**

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For details of the carrying amount and fair value of securities, see Note 2.
(4) Includes assets and liabilities amounting to NIS 38,854 million and NIS 29,964 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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - **Continued**

	As of December 31, 2013 (audited)				
	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	-	9,724	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**	**8,975**	**34,455**	**135,829**	**179,259**
Financial liabilities					
Deposits from the public	141,244	-	31,700	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	21	3,185	1,429	4,635
Total financial liabilities	[(4)]**167,962**	**16,094**	**37,344**	**118,185**	**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 2.
(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.

Note 9 – 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

	September 30, 2014 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	3,592	2,735	-	6,327
Of foreign governments	366	-	-	366
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	18	188	206
Of others in Israel	3	-	-	3
Of others overseas	-	47	17	64
Shares	3	-	-	3
Securities held for trade				
Debentures of the Government of Israel	824	-	-	824
Securities loaned or sold in repurchase agreements	70	-	-	70
Credit with respect to inter-client loaning	490	-	-	490
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	193	140	333
Other	-	1,325	52	1,377
Currency contracts	330	2,045	788	3,163
Contracts for shares	398	60	35	493
Commodities and other contracts	-	-	1	1
Other financial assets	798	-	-	798
Other	-	-	12	12
Total assets	**6,997**	**6,423**	**1,233**	**14,653**
Liabilities				
Deposits with respect to inter-client loaning	490	-	-	490
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	211	16	227
Other	-	1,672	186	1,858
Currency contracts	221	1,857	701	2,779
Contracts for shares	104	23	68	195
Commodity contracts and other contracts	-	1	-	1
Other	-	-	5	5
Total liabilities	**815**	**3,764**	**976**	**5,555**

(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 9 – 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 - **Continued**

			September 30, 2013 (unaudited)	
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	1,584	2,426	-	4,010
Of foreign governments	83	-	-	83
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	86	176	262
Asset-backed				
Of others in Israel	29	-	-	29
Of others overseas	-	96	24	120
Shares	1	-	-	1
Securities held for trade				
Debentures of the Government of Israel	1,045	-	-	1,045
Securities loaned or sold in repurchase agreements				
Credit with respect to loans to clients	302	-	-	302
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI				
Other	-	113	64	177
Currency contracts	-	936	98	1,034
Contracts for shares	266	887	516	1,669
Commodities and other contracts	144	-	155	299
Other financial assets	-	-	1	1
Total assets	**3,578**	**4,544**	**1,034**	**9,156**
Liabilities				
Deposits with respect to borrowing from clients	302	-	-	302
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	184	21	205
Other	-	1,322	187	1,509
Currency contracts	326	549	571	1,446
Contracts for shares	74	-	143	217
Commodities and other contracts	-	-	1	1
Other	-	-	2	2
Total liabilities	**702**	**2,055**	**925**	**3,682**

(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 9 – 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 - **Continued**

	As of December 31, 2013 (audited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
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 trade				
Debentures of the Government of Israel	1,552	-	-	1,552
Securities loaned or sold in repurchase agreements	70	-	-	70
Credit with respect to inter-client loaning	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 inter-client loaning	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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

2. On non-recurring basis – **Continued**

	September 30, 2014 (unaudited)				For the three months ended September 30, 2014	For the nine months ended September 30, 2014
	Fair value					
	Level 1	Level 2	Level 3	Total	Loss	Gain
Impaired credit whose collection is contingent on collateral	-	-	70	70	(3)	28

	September 30, 2013 (unaudited)				For the three months ended September 30, 2013	For the nine months ended September 30, 2013
	Level 1	Level 2	Level 3	Total	Loss	Loss
Impaired credit whose collection is contingent on collateral	-	-	152	152	(3)	(1)

	As of December 31, 2013 (audited)				For the year ended December 31, 2013
	Level 1	Level 2	Level 3	Total	Loss
Impaired credit whose collection is contingent on collateral	-	-	188	188	(21)

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended September 30, 2014 (unaudited)								
		Realized / unrealized gain (loss) included, net[1]							
	Fair value as of June 30, 2014	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2014	Unrealized gain (loss) with respect to instruments held as of September 30, 2014
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	175	13	-	-	-	-	-	188	12
Of others overseas	22	-	-	-	(5)	-	-	17	(2)
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	153	6	-	5	-	(33)	9	140	96
Other	70	(26)	-	9	-	(1)	-	52	32
Currency contracts	235	85	-	590	-	(122)	-	788	443
Contracts for shares	8	4	-	23	-	-	-	35	-
Commodity contracts and other contracts	-	-	-	1	-	-	-	1	-
Other [3]	11	1	-	-	-	-	-	12	-
Total assets	**674**	**83**	**-**	**628**	**(5)**	**(156)**	**9**	**1,233**	**581**
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	12	3	-	-	-	-	1	16	(8)
Other	158	10	-	18	-	-	-	186	(24)
Currency contracts	650	(21)	-	257	-	(185)	-	701	(510)
Contracts for shares	72	(10)	-	16	-	(10)	-	68	-
Other [3]	5	-	-	-	-	-	-	5	-
Total liabilities	**897**	**(18)**	**-**	**291**		**(195)**	**1**	**976**	**(542)**

(1) Realized gain (loss) included on 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.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included on statement of profit and loss under "Non-interest financing revenues".

Note 9 – 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:

	For the three months ended September 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of June 30, 2013	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2013	Unrealized gain (loss) with respect to instruments held as of September 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	(4)	-	-	-	(40)	-	176	(13)
Of others overseas	30	(1)	-	-	(5)	-	-	24	(2)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	117	(34)	-	-	-	(19)	-	64	102
Other	131	(2)	-	-	-	(31)	-	98	61
Currency contracts	362	86	-	160	-	(92)	-	516	338
Contracts for shares	150	46	-	6	-	(47)	-	155	-
Commodities and other contracts	3	-	-	-	-	(2)	-	1	1
Total assets	**1,013**	**91**	**-**	**166**	**(5)**	**(231)**	**-**	**1,034**	**487**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	5	14	-	1	-	(1)	2	21	(3)
Other	246	31	-	-	-	(90)	-	187	(45)
Currency contracts	568	15	-	158	-	(170)	-	571	(443)
Contracts for shares	131	52	-	6	-	(46)	-	143	-
Commodities and other contracts	2	-	-	-	-	(1)	-	1	(1)
Other [(3)]	2	-	-	2	-	(2)	-	2	-
Total liabilities	**954**	**112**	**-**	**167**	**-**	**(310)**	**2**	**925**	**(492)**

(1) Realized gain (loss) included on 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.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included on statement of profit and loss under "Non-interest financing revenues".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the nine months ended September 30, 2014 (unaudited)								
		Realized / unrealized gain (loss) included, net[1]							
	Fair value as of December 31, 2013	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2014	Unrealized gain (loss) with respect to instruments held as of September 30, 2014
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	176	12	-	-	-	-	-	188	12
Of others overseas	24	(2)	-	-	(5)	-	-	17	(2)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	56	82	-	18	-	(61)	45	140	96
Other	67	(23)	-	11	-	(3)	-	52	32
Currency contracts	321	40	-	757	-	(330)	-	788	443
Contracts for shares	91	(20)	-	55	-	(91)	-	35	-
Commodities and other contracts	1	-	-	1	-	(1)	-	1	-
Other [(3)]	11	1	-	-	-	-	-	12	-
Total assets	**747**	**90**	**-**	**842**	**(5)**	**(486)**	**45**	**1,233**	**581**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	11	4	-	1	-	(3)	3	16	(8)
Other	134	29	-	31	-	(8)	-	186	(24)
Currency contracts	503	148	-	477	-	(427)	-	701	(510)
Contracts for shares	83	14	-	44	-	(73)	-	68	-
Commodities and other contracts	1	1	-	-	-	(2)	-	-	-
Other [(3)]	14	(2)	-	-	-	(7)	-	5	-
Total liabilities	**746**	**194**	**-**	**553**	**-**	**(520)**	**3**	**976**	**(542)**

(1) Realized gain (loss) included on 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.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included on statement of profit and loss under "Non-interest financing revenues".

Note 9 – 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**:

	For the nine months ended September 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of December 31, 2012	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2013	Unrealized gain (loss) with respect to instruments held as of September 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(13)	-	-	-	(40)	-	176	(13)
Of others overseas	31	(2)	-	-	(5)	-	-	24	(2)
Assets with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	101	(42)	-	2	-	(45)	48	64	102
Other	173	30	-	5	-	(110)	-	98	61
Currency contracts	493	253	-	425	-	(655)	-	516	338
Contracts for shares	84	110	-	66	-	(105)	-	155	-
Commodities and other contracts	1	2	-	2	-	(4)	-	1	1
Total assets	**1,112**	**338**	**-**	**500**	**(5)**	**(959)**	**48**	**1,034**	**487**
Liabilities									
Liabilities with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	48	7	-	6	-	(46)	6	21	(3)
Other	325	63	-	10	-	(211)	-	187	(45)
Currency contracts	709	148	-	647	-	(933)	-	571	(443)
Contracts for shares	68	99	-	66	-	(90)	-	143	-
Commodities and other contracts	2	1	-	2	-	(4)	-	1	(1)
Other (3)	4	(2)	-	2	-	(2)	-	2	-
Total liabilities	**1,156**	**316**	**-**	**733**	**-**	**(1,286)**	**6**	**925**	**(492)**

(1) Realized gain (loss) included on 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.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included on statement of profit and loss under "Non-interest financing revenues".

Note 9 – 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**:

	For the year ended December 31, 2013 (audited)								
		Realized / unrealized gain (loss) included, net(1)							
	Fair value as of December 31, 2012	On statement of profit and loss	On 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 and bonds:									
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 (3)	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 (3)	4	10	-	4	-	(4)	-	14	-
Total liabilities	**1,156**	**443**	**-**	**892**	**-**	**(1,758)**	**13**	**746**	**(421)**

(1) Realized gain (loss) included on 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.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included on statement of profit and loss under "Non-interest financing revenues".

Note 9 – 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 September 30, 2014	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recuperation rate	Recuperation rate	5.00%	5.00%
CLN	183	Cash flow discounting	Probability of default	1.40%-0.32%	1.19%
Debentures of foreign others	17	Cash flow discounting	Discount rate	5.74%	5.74%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	94	Cash flow discounting	Inflationary expectations	0.73% - 0.70%	0.72%
Contracts for shares	12	Option pricing model	Standard deviation of shares	35.98% - 27.49%	29.17%
Other	922	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.69%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	12	Cash flow discounting	Inflationary expectations	0.73% - 0.70%	0.72%
Other	964	Cash flow discounting	Counter-party credit quality	3.50% - 0.30%	1.88%

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

There were no transfers from Level 2 to Level 1 during the reporting 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 classifying 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 due to 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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

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

	Fair value as of September 30, 2014	Gain with respect to change in fair value for the nine months ended September 30, 2014
Securities available for sale	518	17

	Fair value as of September 30, 2013	Gain with respect to change in fair value for the nine months ended September 30, 2013
Securities available for sale	554	7

	Fair value as of December 31, 2013	Gain with respect to change in fair value for the year ended December 31, 2013
Securities available for sale	850	21

Note 10 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
		(unaudited)		(unaudited)	(audited)
A. Interest revenues[1]					
From loans to the public	1,422	1,939	3,917	4,865	6,066
From loans to Governments	2	3	7	7	9
From deposits with the Bank of Israel and from cash	20	45	99	134	172
From deposits with banks	3	31	10	44	42
From securities loaned or sold in repurchase agreements	-	-	1	1	1
From debentures	22	40	65	124	152
Total interest revenues	**1,469**	**2,058**	**4,099**	**5,175**	**6,442**
B. Interest expenses					
On deposits from the public	376	739	1,107	1,799	2,153
On deposits from governments	1	1	2	4	4
On deposits from banks	4	10	15	34	35
On debentures and subordinated notes	195	303	446	658	786
Total interest expenses	**576**	**1,053**	**1,570**	**2,495**	**2,978**
Total interest revenues, net	**893**	**1,005**	**2,529**	**2,680**	**3,464**
C. Details of net effect of hedging financial derivatives on interest revenues	**(16)**	**(11)**	**(41)**	**20**	**25**
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	8	4	21	16	23
Available for sale	13	30	36	92	112
Held for trade	1	6	8	16	17
Total included under interest revenues	**22**	**40**	**65**	**124**	**152**

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

Note 11 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations					
1. From activity in derivatives					
Non-effective element of hedging ratios [(1)]	-	(1)	-	(2)	-
Net expenses with respect to ALM derivatives [(2)]	805	(253)	733	(386)	(548)
Total from activity in derivatives	**805**	**(254)**	**733**	**(388)**	**(548)**
2. From investment in debentures					
Gain on sale of debentures available for sale[(3)]	55	-	87	33	52
Loss on sale of debentures available for sale	-	(1)	-	(1)	(1)
Total from investment in debentures	**55**	**(1)**	**87**	**32**	**51**
3. Exchange rate differences, net	**(933)**	**165**	**(819)**	**361**	**525**
4. Gain (loss) from investment in shares					
Gains on sale of available-for-sale shares	-	1	3	6	1
Provision for impairment of available-for-sale shares	-	-	-	-	(3)
Dividends from available-for-sale shares	2	-	6	-	1
Total from investment in shares	**2**	**1**	**9**	**6**	**(1)**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**(71)**	**(89)**	**10**	**11**	**27**

(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.

(3) Reclassified from Cumulative Other Comprehensive Income.

Note 11 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
B. Non-interest financing revenues (expenses) with respect to trading activities [(1)]					
Net revenues (expenses) with respect to other derivatives	125	(9)	110	(50)	(51)
Realized gain from adjustment to fair value of debentures held for trade, net	(5)	28	17	32	20
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	2	(20)	(7)	(2)	18
Total from trade operations[(2)]	**122**	**(1)**	**120**	**(20)**	**(13)**
Risk exposure	2	21	14	46	45
Foreign currency exposure	116	(11)	94	(69)	(80)
Exposure to shares	5	(2)	12	12	13
Exposure to commodities and others	(1)	(9)	-	(9)	9
Total	**122**	**(1)**	**120**	**(20)**	**(13)**

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

(2) For interest revenues from investment in debentures held for trade, see Note 10.D.

Note 12 – Operating Segments

For the nine months ended September 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Interest revenues, net:							
From outside operating segments	2,276	(1)	363	133	387	(629)	2,529
Inter-segment	(855)	47	18	(11)	185	616	-
Total interest revenues, net	**1,421**	**46**	**381**	**122**	**572**	**(13)**	**2,529**
Non-interest financing revenues	4	-	-	1	19	106	130
Commissions and other revenues	534	45	173	35	171	98	1,056
Total revenues	**1,959**	**91**	**554**	**158**	**762**	**191**	**3,715**
Expenses with respect to credit losses	37	2	71	(11)	(70)	(6)	23
Operating and other expenses							
From outside operating segments	1,364	60	393	43	164	242	2,266
Inter-segment	(85)	3	(39)	44	64	13	-
Other operating expenses - total	**1,279**	**63**	**354**	**87**	**228**	**255**	**2,266**
Pre-tax profit	643	26	129	82	604	(58)	1,426
Provision for taxes on profit	241	9	49	31	225	(21)	534
After-tax profit	**402**	**17**	**80**	**51**	**379**	**(37)**	**892**
Share in net profits of associates, after tax	-	-	-	-	-	6	6
Net profit:							
Before attribution to non-controlling interest	402	17	80	51	379	(31)	898
Attributable to non-controlling interest	(28)	-	-	-	-	-	(28)
Attributable to equity holders of the banking corporation	**374**	**17**	**80**	**51**	**379**	**(31)**	**870**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.1%**	**32.2%**	**21.7%**	**16.3%**	**16.0%**	**-**	**11.4%**
Average asset balance	106,420	2,196	8,126	4,377	24,878	39,126	185,123
Of which: Investments in associates	-	-	-	-	-	64	64
Average balance of liabilities	65,535	8,759	10,792	4,300	46,560	40,110	176,056
Average balance of risk assets (1)	64,484	810	5,593	4,729	38,157	5,086	118,859
Average balance of provident and mutual fund assets	-	-	-	-	-	84,778	84,778
Average balance of securities (2)	37,603	7,317	8,202	4,029	68,399	76,276	201,826
Average balance of loans to the public	106,059	882	8,115	4,375	22,589	-	142,020
Average balance of deposits from the public	62,507	7,860	10,028	3,960	45,673	15,475	145,503
Loans to the public, net (end balance)	110,259	887	8,572	4,375	22,606	-	146,699
Deposits from the public (end balance)	63,598	8,929	10,215	4,307	48,032	15,567	150,648
Average balance of other assets managed(3)	10,381	10	245	438	622	-	11,696

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

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Margin from credit granting operations	1,129	17	326	109	463	-	2,044
Margin from receiving deposits	251	29	38	10	75	-	403
Other	41	-	17	3	34	(13)	82
Total interest revenues, net	**1,421**	**46**	**381**	**122**	**572**	**(13)**	**2,529**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(3) Includes loans managed by the Bank and assets from operations based on extent of collection. Excludes balances of provident funds, mutual funds and securities of clients – which are presented separately.

Note 12 – Operating Segments - Continued

For the nine months ended September 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Interest revenues, net:							
From outside operating segments	3,006	(14)	322	145	308	(1,087)	2,680
Inter-segment	(1,617)	63	28	(21)	228	1,319	-
Total interest revenues, net	**1,389**	**49**	**350**	**124**	**536**	**232**	**2,680**
Non-interest financing revenues	4	1	-	1	23	(38)	(9)
Commissions and other revenues	571	39	185	43	170	97	1,105
Total revenues	**1,964**	**89**	**535**	**168**	**729**	**291**	**3,776**
Expenses with respect to credit losses	249	(2)	48	(9)	-	(3)	283
Operating and other expenses							
From outside operating segments	1,330	55	370	49	154	220	2,178
Inter-segment	(87)	12	(39)	48	59	7	-
Other operating expenses - total	**1,243**	**67**	**331**	**97**	**213**	**227**	**2,178**
Pre-tax profit	472	24	156	80	516	67	1,315
Provision for taxes on profit	162	8	54	28	177	23	452
After-tax profit	**310**	**16**	**102**	**52**	**339**	**44**	**863**
Share in net profits of associates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	310	16	102	52	339	44	863
Attributable to non-controlling interest	(37)	-	-	-	-	-	(37)
Attributable to equity holders of the banking corporation	**273**	**16**	**102**	**52**	**339**	**44**	**826**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**7.8%**	**23.6%**	**29.7%**	**15.7%**	**14.5%**	**20.5%**	**12.1%**
Average asset balance	96,608	2,281	7,421	4,682	26,664	29,162	166,818
Of which: Investments in associates	-	-	-	-	-	62	62
Average balance of liabilities	60,821	6,984	8,794	3,536	37,201	39,802	157,138
Average balance of risk assets (1)	56,539	1,050	5,352	5,090	35,967	5,535	109,533
Average balance of provident and mutual fund assets	-	-	-	-	-	82,410	82,410
Average balance of securities (2)(3)	30,666	8,454	6,431	3,810	61,841	63,699	174,901
Average balance of loans to the public	96,453	1,257	7,351	4,664	22,390	-	132,115
Average balance of deposits from the public	59,499	6,419	8,675	3,516	37,171	16,257	131,537
Loans to the public, net (end balance)	101,573	1,002	7,589	4,711	21,872	-	136,747
Deposits from the public (end balance) (3)	60,335	6,777	8,948	3,309	39,061	17,433	135,863
Average balance of other assets managed(4)	11,187	7	198	261	232	-	11,885

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

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Margin from credit granting operations	998	24	283	107	431	-	1,843
Margin from receiving deposits	340	24	49	13	73	-	499
Other	51	1	18	4	32	232	338
Total interest revenues, net	**1,389**	**49**	**350**	**124**	**536**	**232**	**2,680**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients
(3) Reclassified.
(4) Includes loans managed by the Bank and assets from operations based on extent of collection. Excludes balances of provident funds, mutual funds and securities of clients – which are presented separately.

Note 12 – Operating Segments - Continued

For the three months ended September 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Interest revenues, net:							
From outside operating segments	899	(14)	121	43	125	(281)	893
Inter-segment	(421)	31	10	(2)	61	321	-
Total interest revenues, net	**478**	**17**	**131**	**41**	**186**	**40**	**893**
Non-interest financing revenues	1	-	-	1	7	42	51
Commissions and other revenues	181	14	59	11	55	34	354
Total revenues	**660**	**31**	**190**	**53**	**248**	**116**	**1,298**
Expenses with respect to credit losses	13	-	28	(7)	(25)	(4)	5
Operating and other expenses							
From outside operating segments	474	21	140	15	60	82	792
Inter-segment	(29)	-	(13)	14	23	5	-
Other operating expenses - total	**445**	**21**	**127**	**29**	**83**	**87**	**792**
Pre-tax profit	202	10	35	31	190	33	501
Provision for taxes on profit	76	3	14	12	71	13	189
After-tax profit	**126**	**7**	**21**	**19**	**119**	**20**	**312**
Share in net profits of associates, after tax	-	-	-	-	-	3	3
Net profit:							
Before attribution to non-controlling interest	126	7	21	19	119	23	315
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**115**	**7**	**21**	**19**	**119**	**23**	**304**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**8.2%**	**41.9%**	**17.3%**	**19.1%**	**14.2%**	**52.1%**	**12.0%**

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

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Margin from credit granting operations	388	5	115	37	155	-	700
Margin from receiving deposits	78	12	11	3	25	-	129
Other	12	-	5	1	6	40	64
Total interest revenues, net	**478**	**17**	**131**	**41**	**186**	**40**	**893**

Note 12 – Operating Segments - Continued

For the three months ended September 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Interest revenues, net:							
From outside operating segments	1,301	(16)	96	48	102	(526)	1,005
Inter-segment	(830)	30	22	(8)	85	701	-
Total interest revenues, net	**471**	**14**	**118**	**40**	**187**	**175**	**1,005**
Non-interest financing revenues	2	1	-	1	5	(99)	(90)
Commissions and other revenues	188	9	62	15	57	33	364
Total revenues	**661**	**24**	**180**	**56**	**249**	**109**	**1,279**
Expenses with respect to credit losses	30	1	24	(4)	20	(3)	68
Operating and other expenses							
From outside operating segments	462	19	131	18	53	72	755
Inter-segment	(30)	6	(14)	17	21	(0)	-
Other operating expenses - total	**432**	**25**	**117**	**35**	**74**	**72**	**755**
Pre-tax profit	199	(2)	39	25	155	40	456
Provision for taxes on profit	64	(1)	12	8	47	13	143
After-tax profit	**135**	**(1)**	**27**	**17**	**108**	**27**	**313**
Share in net profits of associates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	135	(1)	27	17	108	28	314
Attributable to non-controlling interest	(13)	-	-	-	-	-	(13)
Attributable to equity holders of the banking corporation	**122**	**(1)**	**27**	**17**	**108**	**28**	**301**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**10.5%**	**-**	**24.7%**	**15.9%**	**14.4%**	**25.1%**	**13.3%**

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

	Households	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total console-dated
Margin from credit granting operations	349	9	97	37	158	-	650
Margin from receiving deposits	104	5	15	4	23	-	151
Other	18	-	6	(1)	6	175	204
Total interest revenues, net	**471**	**14**	**118**	**40**	**187**	**175**	**1,005**

(1) Reclassified.

Note 12 - Operating Segments - Continued

For the year ended December 31, 2013 (audited) - continued

Reported amounts (NIS in millions)

A. Information on operating segments

	Households(2)	Private banking(2)	Small business (2)	Commercial banking (2)	Business banking (2)	Financial manage-ment (2)	Total consol-idated
Interest revenues, net:							
From outside operating segments	3,689	(15)	444	190	419	(1,263)	3,464
Inter-segment	(1,803)	70	22	(24)	299	1,436	-
Total interest revenues, net	**1,886**	**55**	**466**	**166**	**718**	**173**	**3,464**
Non-interest financing revenues	7	2	-	1	32	(28)	14
Commissions and other revenues	771	54	248	59	212	141	1,485
Total revenues	**2,664**	**111**	**714**	**226**	**962**	**286**	**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	740	21	193	99	689	(24)	1,718
Provision for taxes on profit	255	7	67	34	237	(8)	592
After-tax profit	**485**	**14**	**126**	**65**	**452**	**(16)**	**1,126**
Share in net profits of associates, after tax	-	-	-	-	-	(4)	(4)
Net profit:							
Before attribution to non-controlling interest	485	14	126	65	452	(20)	1,122
Attributable to non-controlling interest	(44)	-	-	-	-	-	(44)
Attributable to equity holders of the banking corporation	**441**	**14**	**126**	**65**	**452**	**(20)**	**1,078**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.0%**	**15.4%**	**26.1%**	**14.4%**	**14.0%**	**-**	**11.5%**
Average asset balance	98,659	1,814	7,511	4,689	25,426	30,660	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 (1)	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	97,652	1,217	7,409	4,653	22,468	-	133,399
Average balance of deposits from the public	59,500	6,444	8,767	3,485	38,285	16,626	133,107
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)	11,042	7	198	284	230	-	11,761

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

	Households(2)	Private banking(2)	Small business (2)	Commercial banking (2)	Business banking (2)	Financial manage-ment (2)	Total consol-idated
Margin from credit granting operations	1,362	23	377	143	582	-	2,487
Margin from receiving deposits	455	30	63	16	96	-	660
Other	69	2	26	7	40	173	317
Total interest revenues, net	**1,886**	**55**	**466**	**166**	**718**	**173**	**3,464**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.
(4) Includes loans managed by the Bank and assets from operations based on extent of collection. Excludes balances of provident funds, mutual funds and securities of clients – which are presented separately.

Note 13 - 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 adjust-tments	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
	For the three months ended September 30, 2014 (unaudited)					
Balance as of June 30, 2014	**(4)**	**(3)**	**9**	**2**	**-**	**2**
Net change in the period	30	2	7	39	-	39
Balance as of September 30, 2014	**26**	**(1)**	**16**	**41**	**-**	**41**
	For the three months ended September 30, 2013 (unaudited)					
Balance as of June 30, 2013	**3**	**(1)**	**1**	**3**	**2**	**1**
Net change in the period	2	(1)	(1)	-	(2)	2
Balance as of September 30, 2013	**5**	**(2)**	**-**	**3**	**-**	**3**
	For the nine months ended September 30, 2014 (unaudited)					
Balance as of January 1, 2014	**12**	**(3)**	**3**	**12**	**1**	**11**
Net change in the period	14	2	13	29	(1)	30
Balance as of September 30, 2014	**26**	**(1)**	**16**	**41**	**-**	**41**
	For the nine months ended September 30, 2013 (unaudited)					
Balance as of January 1, 2013	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	5	(2)	(3)	-	(3)	3
Balance as of September 30, 2013	**5**	**(2)**	**-**	**3**	**-**	**3**
	For the year ended December 31, 2013 audited					
Balance as of January 1, 2013	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	12	(3)	-	9	(2)	11
Balance as of December 31, 2013	**12**	**(3)**	**3**	**12**	**1**	**11**

Note 13 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the three months ended September 30					
	2014			2013		
	(unaudited)			(unaudited)		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income, 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	103	(39)	64	3	(1)	2
Loss (gain) with respect to available-for-sale securities reclassified to the statement of profit and loss [1]	(55)	21	(34)	1	(1)	-
Net change in the period	**48**	**(18)**	**30**	**4**	**(2)**	**2**
Translation adjustments						
Adjustments from translation of financial statements	2	-	2	(1)	-	(1)
Net change in the period	**2**	**-**	**2**	**(1)**	**-**	**(1)**
Cash flow hedges						
Net gain (loss) with respect to cash flow hedges	14	(5)	9	(1)	-	(1)
Net (gain) loss reclassified to the statement of profit and loss[2]	(3)	1	(2)	-	-	-
Net change in the period	**11**	**(4)**	**7**	**(1)**	**-**	**(1)**
Total net change in the period	**61**	**(22)**	**39**	**2**	**(2)**	**-**
Total net change in the period attributable to non-controlling interest	-	-	-	2	-	2
Total net change in the period attributable to equity holders of the banking corporation	**61**	**(22)**	**39**	**4**	**(2)**	**2**

(1) Pre-tax amount included on the statement of profit and loss under "Non-interest financing revenues". For details, see Note 11.A.2.
(2) Pre-tax amount included on the statement of profit and loss under "Interest revenues". For details, see Note 10.C.

	For the nine months ended September 30						For the year ended December 31,		
	2014			2013			2013		
	(unaudited)			(unaudited)			(audited)		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	110	(42)	68	40	(15)	25	73	(29)	44
	(87)	33	(54)	(32)	12	(20)	(51)	19	(32)
	23	**(9)**	**14**	**8**	**(3)**	**5**	**22**	**(10)**	**12**
	2	-	2	(2)	-	(2)	(3)	-	(3)
	2	**-**	**2**	**(2)**	**-**	**(2)**	**(3)**	**-**	**(3)**
	25	(9)	16	1	-	1	5	(2)	3
	(5)	2	(3)	(5)	1	(4)	(5)	2	(3)
	20	**(7)**	**13**	**(4)**	**1**	**(3)**	**-**	**-**	**-**
	45	**(16)**	**29**	**2**	**(2)**	**-**	**19**	**(10)**	**9**
	1	-	1	4	(1)	3	3	(1)	2
	46	**(16)**	**30**	**6**	**(3)**	**3**	**22**	**(11)**	**11**

Note 14 - Other matters

A. On January 26, 2014, Tefahot Issuance issued NIS 1,650 million par value debentures (Series 35 and 36, CPI-linked), pursuant to the shelf prospectus dated July 30, 2013, for consideration of NIS 1,690 million.

On May 29, 2014, Tefahot Issuance issued NIS 1,243 million par value debentures (Series 37, NIS-denominated), pursuant to the shelf prospectus dated July 30, 2013, for consideration of NIS 1,243 million.

On September 10, 2014, Tefahot Issuance issued debentures (Series 38, CPI-linked) with par value amounting to NIS 2,876 million pursuant to the shelf prospectus dated July 30, 2013, for consideration amounting to NIS 2,876 million.

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

B. 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.

C. 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 following 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.

Note 14 - Other matters - continued

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

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

Note 14 - Other matters – continued

- The revised remuneration policy is in line with the Bank's results in recent years.
- For more information about the revised remuneration policies, its guidelines and scope – see Appendix A to the 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.

D. 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.

The terms of office or employment of Bank employees include fixed and variable remuneration, as is 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.

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 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: "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 of 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, to a study fund at 7.5% of his salary.

Note 14 - Other matters – continued

Upon termination of the Bank President'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 President, with regard to the latter's work for the Bank prior to his appointment as President. The Bank would also release to the President his 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 described in the employment contract, subject to conditions stipulated 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 an 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.

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.

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, 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.

Note 14 - Other matters – continued

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 relevant changes ", 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.

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 specified 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.

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.

Note 14 - Other matters – 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 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 President, 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.

F. 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 Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and subsidiaries thereof, pursuant to section 15B(1)(a) of the Securities Act, all as specified in a report issued by the Bank on June 19, 2014, reference 2014-01-091176 (hereinafter: "the outline report").

As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

- Option plan A - up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B - up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C - up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D - up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E - up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

Note 14 - Other matters - continued

The number of exercise shares, as described 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 these 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.

The options to be issued in the name of the trustee for each officer, pursuant to option plans C, D or E, would be divided into three equal annual lots, one for each bonus year. Each of the annual lots would vest in three equal portions as from April 1 of 2016-2020, as set forth in the outline report.

Each of the annual lots for options D and E would vest as follows:

- The adjusted annual lot for 2014 may be exercised from the first anniversary of the option issuance date through 4.5 years 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.

Note 14 - Other matters - continued

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 set forth in section 2.12.9 of the outline report.

  The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

  The exercise price for each option to be issued pursuant to any of the plans is NIS 46.21 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

  For the calculation of fair value as of the approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the outline report were taken into account.

Note 14 - Other matters - continued

Based on the aforementioned assumptions, as stated in the outline report, the average fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options 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 the accounting rules of IFRS 2, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When recognizing the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the 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 described in an Immediate Report dated June 19, 2014, reference 2014-01-091176. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

G. Further to the aforementioned stock option plans, 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 sections E.-F. above).
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. Such share buy-back would be made subject to approval by the Bank Board of Directors.
Buy-back of Bank shares is tantamount to a dividend distribution.
Prior to a dividend distribution, the Supervisor of Banks would review the Bank's overall plan for dividend distribution and its consistency with Bank capital planning and operations.
After such review by the Supervisor of Banks, future dividend distributions would be decided by the Board of Directors, subject to Bank policy and regulatory limitations.

Note 14 - Other matters - continued

H. 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 1,017 thousand. (For details of the formula for the annual monetary bonus payable to the Chairman of the Board of Directors, see the 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. 204 of the Bank's 2013 Annual Financial Statements.

The reasons cited by the Remuneration Committee and the Board of Directors noted the Chairman's considerable contribution to implementation of corporate governance principles at the Bank and the efficient operation of the Bank Board of Directors; they also noted the professional and appropriate manner in which the Chairman discharged his role, the Chairman's involvement in control of risk management at the Bank and the Chairman's understanding of issues facing the Board of Directors as well as the Chairman's contribution to Board discussions.

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